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RETAIL AND DISTRIBUTION MANAGEMENT

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SYLLABUS

Retail and Distribution Management

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LESSON 1 AN OVERVIEW OF RETAILING

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Introduction

The word 'Retail' is derived from a French word with the prefix re and the verb tailer meaning "to cut again". Evidently, retail trade is one that cuts off smaller portions from large lumps of goods. It is a process through which goods are transported to final consumers. In other words, retailing consists of the activities involved in selling directly to the ultimate consumer for personal, non-business use. It embraces the direct-to-customer sales activities of the producer, whether through his own stores by house-to-house canvassing or by mail-order business.

Manufacturers engage in retailing when they make direct-to-consumer sales of their products through their own stores (as Bata and Carona shoe companies, D.C.M. Stores, Mafatlals and Bombay Dyeing) by door-to-door canvass, or mail order or even on telephone. Even a wholesaler engages in retailing when sells directly to an ultimate consumer, although his main business may still be wholesaling.

A retailer is a merchant or occasionally an agent or a business enterprise, whose main business is selling directly to ultimate consumers for non-business use. He performs many marketing activities such as buying, selling, grading, risk-trading, and developing information about cusotmer's wants. Aretailer may sell infrequently to industrial users, but these are wholesale transactions, not retail sales. If over one half of the amount of volume of business comes from sales to ultimate consumers, i.e. sales at retail, he is classified as a retailer. Retailing occurs in all marketing channels for consumer products.

Importance of Retailing

The retailer is an intermediary in the marketing channel because he is both marketer and customer, who sells to the last man to consume. He is a specialist who maintains contact with the consumer and the producer; and is an important connecting link in a complex mechanism of marketing. Though producers may sell directly to consumers, such method of distributing goods to ultimate users is inconvenient, expensive and time consuming as compared to the job performed by a specialist in the line. Therefore, frequently the manufacturers depend on the retailers to sell their products to the ultimate consumers. The retailer, who is able to provide appropriate amenities without an excessive advance in prices of goods is rewarded by larger or more loyal patronage.

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Economic Justification for retailing

All middlemen basically serve as purchasing agents for their customers and as sales specialists for their suppliers. To carry out those roles, retailers perform many activities, including anticipating customer's wants, developing assortments of products, acquiring market information and financing.

It is relatively easy to become a retailer. No large investment in production equipment is required, merchandise can often be purchased on credit and store space can be leased with no 'down payment' or a simple website can be set up at relatively little cost. Considering these factors, perhaps it's not surprising that there are just over a 6 million retail outlets operating across the Indian cities from north to south and from east to west. This large number of outlets, many of which are trying to serve and satisfy the same market segments, results in fierce competition and better values for shoppers.

To enter retailing is easy; to fail is even easier! To survive in retailing, a firm must do a satisfactory job in its primary role - catering to consumers. Rama Subramaniam the former head - retail segment Spensors described a successful retailer as a "merchant who sells goods that won't come back to customers who will". Of course, a retail firm also must fulfill its other role - serving producers and wholesalers. This dual role is both the justification for retailing and the key to success in retailing.

GENERAL SERVICES

The general services which a retailer provides are:

1. The retailer anticipates the wants of the consumers and then supplies them the right kind of goods at reasonable price. His job is to make the consumers buying as easy and convenient as possible i.e. he acts as a consumers' agent.
2. He performs the service of bulk-breaking i.e. dividing large quantities into small units, such as individual cans, bottles, boxes, wrappers, packages, appropriate for consumer use.
3. He offers a large assortment of merchandise, of suitable size, colour, design, style and seasonal items-ranging from domestic utensils, household requisites to speciality goods.
4. He creates time and place utility by storing the products in off season and by transporting these goods to the places where they can be readily available as and when needed by the consumer.
5. He also assumes risks by guaranteeing the goods he sells to the consumer.
6. He also offers free delivery of goods, credit on open accounts, free alteration, liberal exchange facilities, instructions in the use of goods, revolving credit plans, and long term instalment programmes.

7. He adds to the convenience and ease of consumer purchasing by offering convenient shopping locations, market informations and other services such as free parking privileges, lessons on product use and a multitude of other facilities may be offered and found sufficiently desired to result in increased patronage.
8. He helps the producers in distributing their products by using advertisement display and personal selling.
9. The level of retail sales is one of the most useful barometers of the nations economic health. For example when sales of cycles pick-up, sales of steel and components also increase, as does employment and thus increasing purchasing power. But when sales go down, manufacturers cut back production, unemployment increases and retail sales also goes down.

Facilitating Services:

In order to carry out functions involving transfer of ownership and physical supply effectively retailers perform a number of facilitating functions i.e. functions relating to standardisation and grading, financing, risk-taking and market information.

A retailer of fresh fruits and vegetables has to standardise and grade these to make these acceptable to customers. They establish standards, inspect goods they receive, and sort them in various classifications.

Quite often they purchase in large quantities and then divide them and repack them before selling. When the retailer sells goods on credit he performs finance function. From the moment he sells and collects the last rupee from the customer, when goods are sold on credit, he is said to be performing a financing function.

Another function performed by retailers is that of risk-taking. During the entire time a retailer holds title to particular goods, he must inevitably bear a wide variety of risks. Not only the goods may be destroyed through fire or flood, but also, there is often the danger of theft, deterioration or spoilage.

Furthermore, such merchants are also faced with the threat that consumers will not accept their product or will purchase them only at unprofitable prices. He also undertakes risk in handling of fashion goods and other items for which consumer demand varies greatly from time to time.

Since the retailer knows about the wishes of his customers the price, quality and the kind of merchandise available in the market as well as the existing and anticipated style trends, he keeps in stock the goods usually required by customers.

Overview of Retail Sector

All over the world, retailing is undergoing a process of evolution and is poised to undergo dramatic transformation. With special reference to India, the retail sector employs over 10 percent of the national work force but is characterised by a high degree of fragmentation with over 5 million outlets, 96 percent of whom are very

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small with an area of less than 50 m^2. The retail universe doubled between 1986 and 2006 and the number of outlets per 1000 people at an All India Level increased from 4.9 in 1988 to 14.8 in 2006. Because of their small size, the Indian Retailers have very little bargaining power with manufacturers and perform only a few of the flows in marketing channels unlike in the case of retailers in developed countries.

The corner grocer or the 'Kirana' Store is a key element in the retail in India due to the housewifes unwillingness to go long distances for purchasing daily needs. Although convenience and merchandise were the two most important reasons for choosing a store, the choice interia varied across product categories. Convenience was indicated by consumers as the most important reason in the choice of groceries and fruit outlets, chemists and life style items while merchandise was indicated as the most important in durables, books and apparel.

In recent years, there has been a slow spread of retail chains in some formats like super markets, department stores, malls and discount stores. Factors facilitating the spread of chains are the availability of quality products at lower prices, improved shopping standards, convenient shopping and display and blending of shopping with entertainment and the entry to industrial houses like Goenkas and Tatas into retailing.

Thailand is one of the countries whose economy has developed rapidly in recent years. There has been a tradition of independently owned outlets called shop houses. These outlets are run by families, with the shop located on the ground floor and the family's living quarters on upper floors. Thailand's first departmental store opened in 1956 and the first shopping centre in (1967). Discounts and super stores were introduced in 1989. However, the presence of super market format has been low due to ingrained habit of buying fresh produce. Speciality stores were just emerging in Thailand in mid 1990s.

Another country where the development of the retail sector has also followed an interesting path is Brazil. The concept of self service in shopping was introduced to Brazil in 1953 but until 1972, there was no foreign influence in the Brazilian retail sector. Food retailing especially, contained to be Brazilian owned and managed although international innovations were adopted. The number of intermediaries in marketing channels is decreasing as the operation of wholesalers is under threat from the direct contact between retailers and suppliers, although few specialised distributors have emerged who provide value added services such as distribution of frozen and chilled food.

Summary

Retailing is the sale of goods and services to ultimate consumers for personal, non-business use. Any institution may engage in retailing, but a firm engage primarily in retailing is called a retailer. Retailers serve as purchasing agents for consumer and as sales specialists for producers and wholesaling middleman. They perform many specific activities such as anticipating consumers' wants, developing product assortments and financing.

LESSON 2 TYPES OF STORES

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It is in retailing that very drastic changes have occurred during the last two decades. Some institutions have disappeared whereas newer ones have been added. This process of deletion / addition still continues in newer forms. There are large-scale retailing shops together with very small units, both working simultaneously. They have from hawkers and peddlers, who have no permanent place, to well-organised, settled retail shops like chain stores, departmental stores, etc.

The institutions carrying on the retail business can be classified as under

Major Types of Retail Stores

Instore-Retaling	Non-Store Retailing	Franchising
1. Department Stores	1. Direct Selling	
2. Super Markets	2. Telemarketing	
3. Discount Houses	3. Online Retailing	
4. Chain Stores or	4. Automatic vending	
5. Multiple Shops	5. Direct Marketing.	

Department Stores

These are large scale retail stores selling under one roof and one control a variety of goods divided into different departments, each of which specializes in an individual merchandise. Converse is of the opinion that a department store is a retail shop handling several classes of goods including fast moving consumer goods, each class being separated from others in management, accounting and location. It is viewed by Clarke as that type of retail institution which handle a wide verity of merchandise under one roof which the merchandise grouped into well-defined departments which is centrally controlled and which caters primarily to women shoppers.

Thus a department store is a retailing business unit that handles a wide variety of shopping and specialty goods and is organized into separate departments for purposes of sales promotion, accounting control and store operation.

Recent trends are to add departments for automotive, recreational and sports equipment, as well a services such as insurance, travel advice and income-tax preparation. Department stores are distinctive in that they usually are oriented towards service. They are usually shopping centers.

Classification of Department Stores

These stores may be classified either according to ownership or income groups to which they appeal.

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a) On the basis of ownership these are :

(i) The independent; (ii) The ownership group; and (iii) Chain department Stores. Independent stores are owned by a financial interest which does not own other similar stores Ownership group stores are those stores which were formerly dependent but now have been combined.

Chain department stores are those stores which are centrally owned and operated.

b) On the basis of income groups, These stores cater to the middle and high income groups. They usually handle good quality merchandise and offer maximum service to the customers. Other stores cater to the needs of the lower income group people.

c) Sometimes there is also to be found what are called leased department stores. Although it appears to most customers that all departments in a department store are owned and operated by the store, that is not always the case. The operations of certain departments are sometimes turned over to leases and such departments are called leased departments.

Characteristic Features of Department Stores

The chief features of these stores are:

(i) These are integrated stores performing operations in addition to other retail stores such as wholesaling.

(ii) Goods are divided into different classes with different locations and management within the store itself.

(iii) These stores are distinguished by the nature of goods they self and not by the varieties they keep for example, drug and variety stores carry a wide variety of goods.

(iv) The store is a horizontally integrated institution. It brings together under one roof a range of merchandise offerings comparable to the combined offerings of many stores specializing in single or fewer merchandise lines.

Location of Department Stores

The success of a department store depends much on its location, availability of space, the area and community to be served and ability to attract customers are the important factors to be considered before establishing a store at a particular place. Special Consideration should be given to accommodation so as to allow every possible amusement facilities. Considerable space should also be allotted for show room displaying stores merchandise.

Merits of Department Stores

1. Large department stores buy in large quantities and receive special concession or discount in their purchases. Many of them purchase direct form manufactures and hence, middleman's charges are eliminated.

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2. Department stores are in a position to pay cash on all or most of their purchases and this gives them an additional advantage of picking up quality goods at cheaper rates and at the same time stocking the latest style and fads.
3. Customers can do all their purchases under one roof and it appeals to people of all walks of life.
4. The organization is too large to provide expert supervision of various departments for the adoption of a liberal credit and delivery service for large-scale advertising.
5. When customers enter the store to deal with one department they are frequently induced by the advertisement which the display of goods offers to make purchases in other departments as well.

Limitations of Department Stores

Department business organizations are not free from abuses. There are certain specific limitations from which such institutions suffer such as:

1. The cost of doing business is very high due to heavy overhead expenses.
2. Because of their location in a central shopping area they are of not much advantage to the public because goods required at short notice are always purchased from the nearest traders.
3. There is lack of personal touch and personal supervision which is to be found in single line.
4. When hired diligence is substituted for the diligence of ownership, loss and leaks are likely to occur.
5. Many customers abuse the liberal services extended and take advantage of the policy of the 'customers is always right'.
6. The type of salesmanship found in many stores is very poor because of low payments and lack of supervision.

Future of Department Stores

Nothing definite can be predicted whether these department organizations will continue to carry on and will progress in face of overgrowing competition of chain stores, mail order business and other smaller independent dealers. Stores with overhead burdens which cannot be reduced may have to go, but the department stores as an institution are bound to go on with a future. The department store which is properly equipped in plant, stock and personnel to carry on a reasonable sales volume and then does a better job in giving values and services, then its competitors are entitled to, and will receive its business profit.

Department Stores are now opening branches in many new areas and making concerted efforts to meet new competition. They have been modernized, redecorated and better services are being developed; and they are being converted to self-service.

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4. Super Markets:

These are large, self service stores that carry a broad and complete line of food and non-food products. They have central check out facilities.

Kotler defines supermarket as 'a departmentalised retail establishment having four basic departments viz. self-service grocery, meat, produce and diary plus other household departments, and doing a maximum business. It may be entirely owner operated or have some of the departments leased on a concession basis.'

Characteristic Features of Super Markets

Chief characteristic features of supermarkets include the following:

i. They are usually located in or near primary or secondary shopping areas but always in a place where parking facilities are available.

ii. They use mass displays of merchandise.

iii. They normally operate as cash and carry store.

iv. They make their appeal on the basis of low price, wide selection of merchandise, nationally advertised brands and convenient parking.

iv. They operate largely on a self-service basis with a minimum number of customer services.

Supermarkets came into existence during the depression in U.S.A. At that time they sold only food products, and their principal attraction was the low price of their merchandise. As super markets increased in number day by day they also expanded into other lines of merchandise.

Advantages of supermarkets

i. Super markets have the advantage of convenient shopping, permitting the buyer to purchase all his requirements at one place.

ii. Super markets also stock a wide variety of items.

iii. These markets can sell at low prices because of their limited service feature, combined with large buying power and the willingness to take low percent of profit margins.

iv. Shopping time is considerably reduced.

Limitations of Supermarkets

i. The large and extensive area required for a super market is not available cheaply in important places.

ii. The products which require explanation for their proper use can not be dealt in through the super markets.

iii. Customer services are practically absent.

iv. Another limitation of the super market is the exorbitantly high administrative expenses.

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Discount Houses

These are large stores, freely open to the public and advertising widely. They are self-service and general merchandising stores. They carry a wide assortment of products of well known brands, appliances, housewares, home furnishings, sporting goods, clothing, toy and automotive services. They complete on low price basis and operate on a relatively low mark-up and a minimum number of customer service. They range from small open showroom to catalogue type order offices to full line limited service, and promotional stores. They buy their merchandise stocks both from wholesale distributors and directly from manufacturers.

Chain Stores or Multiple Shops

A chain store system consists of four or more stores which carry the same kind of merchandise are centrally owned and managed and usually are supplied from one or more central warehouses. A chain store is one of the retail units in chain store system.

Chains have been interpreted as a group of two or more reasonably similar stores in the same kind or field of business under one ownership and management, merchandised wholly or largely from central merchandising head quarters and supplied from the manufacturer or orders placed by the central buyers.

In Europe, this system is called as Multiple Shops and the American call it as “Chain Stores”. Under the multiple or chain shop arrangement, the main idea is to approach the customers and not to draw the customers as it as is practiced in the case of department store. In order to draw more customers, attempts are made to open a large number of shops in the same city at different places.

In India apt example for this retail system are offered by ‘Bata Shoes’, ‘Usha Sewing Machines’ etc., such multiple shops have ‘centralised buying with decentralized selling”. Fundamentally, they specialize in one product but with all its varieties or models.

Chief Features of Chain Stores

The chief features of chain stores are:

i. One or more units may constitute a chain,

ii. They are centrally owned with some degree of centralised control of operation.

iii. They are horizontally ‘integrated’ that is, they operate multiple stores. With addition of each new store, the system extends the reach to another group of customers.

iv. Many stores are also ‘vertically integrated’. They maintain large distribution centres where they buy from producers, do their own warehousing and then distribute their own stores.

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Advantages of chain stores or multiple shops

i. Lower selling prices. This is mainly possible due to economy in buying operation.
ii. Economy and advertising. Common advertisements covering all the units are feasible and this reduces advertisement expenditure.
iii. Ability to spread risks. Unlike the department store the principle here is not to "lay all the eggs in one basket". By trail and error, a unit sustaining losses may be shifted to some other place or even dropped.
iv. There is flexibility in working.
v. Since it works only on cash basis, bad debts as well as detailed accounting processes are avoided.
vi. Central and costly locations are not essential.

Limitations of chain stores or multiple shops

i. Lower price is a false claim. According to Stanton "Price Comparison is not possible, as such stores are handling only limited items".
ii. Inflexible in practice. Multiple shops deal in standardised products only- which creates inflexibility in offering wide varieties.
iii. Personnel Problems. Being a large organisation, it is always susceptible to problems associated with large scale business.
iv. Poor public image. Various consumer services such as credit facility, door delivery etc. are completely absent in chain store. The present day consumers prefer to have more services than quality in addition to desiring low prices.

Non-Store Retailing

A large majority - about - 80% - of retail transactions are made in stores. However, a growing volume of sales is taking place away from stores. Retailing activities resulting in transactions that occur away from a physical store are called non-store retailing. It is estimated that non-store sales account for almost 20% of total retail trade.

Following are the five types of non store retailing: direct selling, tele marketing, online retailing, automatic vending and direct marketing. Each type may be used not just by retailers but by other types of organisations as well.

Direct Selling

In the context of retailing, direct selling is defined as personal contact between a sales person and a consumer away from a retail store. This type of retailing has also been called in home selling. Annual volume of direct selling in India is growing fast from the beginning of the 21^{st} century.

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Like other forms of non-store retailing, direct selling is utilized in most countries. It is particularly widespread in Japan, which accounts for about 35% of the worldwide volume of direct selling. The U.S. represents almost 30% of the total and all other countries the rest.

The two kinds of direct selling are door to door and party plan. There are many well known direct-selling companies including Amway, Creative memories and Excel communications. Diverse products are marketed through direct selling. This channel is particularly well suited for products that require extensive demonstration.

Advantages of Direct Selling

i. Consumers have the opportunity to buy at home or at another convenient nonstore location that provides the opportunity for personal contact with a sales person.

ii. For the seller, direct selling offers the boldest method of trying to persuade ultimate consumers to make a purchase.

iii. The seller takes the product to the shoppers home or work place and demonstrates them for the consumer.

Limitations of Direct Selling

i. Sales commissions run as high as 40 to 50% of the retail price; of course, they are paid only when a sale is made.

ii. Recruiting sales people - most of whom are part timers are difficult tasks, iii. Some sales representatives use high pressure tactics or are fradulent.

Telemarketing

Sometimes called telephone selling, telemarketing refers to a sales person initiating contact with a shopper and closing a sale over the telephone. Telemarketing many entail cold canvassing from the phone directory. Many products that can be bought without being seen are sold over the telephone. Examples are pest control devices, magazine subscriptions, credit cards and cub memberships.

Telemarketing is not problem free. Often encountering hostile people on the other end of the line and experiencing many more rejections than closed sales, few telephone sales representatives last very long in the job. Further some telemarketers rely on questionable or unethical practices. For instance firms may place calls at almost any hour of the day or night. This tactic is criticised as violating consumers' right to privacy. To prevent this, some states have enacted rules to constrain telemarketers' activities.

Despite these problems, telemarketing sales have increased in recent years. Fundamentally, some people appreciate the convenience of making a purchase by phone. Costs have been reduced by computers that automatically dial telephone number, even deliver a taped message and record information the buyer gives to

complete the sale. The future of telemarketing is sure to be affected by the degree to which the problems above can be addressed and by the surge of online retailing.

Online Retailing:

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When a firm uses its website to offer products for sale and then individuals or organisations use their computers to make purchases from this company, the parties have engaged in electronic transactions (also called on line selling or internet marketing). Many electronic transactions involve two businesses which focuses on sales by firms to ultimate consumers. Thus online retailing is one which consists of electronic transactions in which the purchaser is an ultimate consumer.

Online retailing is being carried out only by a rapidly increasing number of new firms, such as Busy.com, Pets Mart and CD Now.com. Some websites feature broad assortments, especially those launched by general merchandise retailers such as Wai-mart and Target. Some Internet only firms, notably Amazon.com are using various methods to broaden their offerings.

Whatever their differences, e-retailers are likely to share an attribute. They are unprofitable or best, barely profitable. Of course, there are substantial costs in establishing an online operation. Aggressive efforts to attract shoppers and retain customers through extensive advertising and low prices are also expensive. The substantial losses racked by online enterprises used to be accepted, perhaps even encouraged by investors and analysts. The rationale was that all available funds should be used to gain a foothold in this growing market.

Despite these challenges, online retailing is expected to grow, rapidly and significantly for the foreseeable future. Online sales represented about 1% of retail spending in 2005, but one research firm estimates that consumer purchases on the Internet with triple by the year 2010.

Which product categories are consumers most likely to buy on the Internet in the future? Consumers' shopping intentions in 2005 placed the following goods and services at the tope of the list: books, music and videos, computer hardware and software, travel and apparel. Of course, given that change on the Internet occurs, these categories soon may be surpassed by others - perhaps groceries, toys, health and beauty aids, auto parts or pet supplies.

Automatic vending

The sale of products through a machine with no personal contact between buyer and seller is called automatic vending. The appeal of automatic vending is convenient purchase. Products sold by automatic vending are usually well-known presold brands with a high rate of turnover. The large majority of automatic vending sales comes from the "4 c's" : cold drinks, coffee, candy and cigarettes.

Vending machines can expand a firm's market by reaching customers where and when they cannot come to a store. Thus vending equipment is found almost everywhere, particularly in schools, work places and public facilities. Automatic

vending has high operating costs because of the need to replenish inventories frequently. The machines also require maintenance and repairs.

The outlook for automatic vending is uncertain. The difficulties mentioned above may hinder future growth. Further, occasional vending-related scams may scare some entrepreneurs away from this business.

Vending innovations give reason for some optimism. Debit cards that can be used at vending machines are becoming more common. When this card is inserted into the machine, the purchase amount is deducted from the credit balance. Technological advances also allow operators to monitor vending machines from a distance, thereby reducing the number of out-of-stock or out-of-order machines.

Direct Marketing

There is no consumers on the exact nature of direct marketing. In effect, it comprises all types of non-store retailing other than direct selling, telemarketing, automatic vending and online retailing. In the context of retailing, it has been defined as direct marketing as using print or broadcast advertising to contact consumers who in turn, buy products without visiting a retail store.

Direct marketers contact consumers through one or more of the following media: radio, TV, newspapers, magazines, catalogs and mailing (direct mail). Consumer order by telephone or mail. Direct marketers can be classified as either general - merchandise firms, which offer a variety of product lines, or specialty firms which carry - only one or two lines such as books or fresh fruit.

Under the broad definition, the many forms of direct marketing include:

- Direct mail - in which firms mail letters, brochures and even product samples to consumers, and ask them to purchase by mail or telephone.
- Catalog retailing - in which companies mail catalogs to consumers or make them available at retail stores.
- Televised shopping - in which various categories of products are promoted on dedicated TV channels and through infomercials, which are TV commercials that run for 30 minutes or even longer on an entertainment channel.

On the plus side, direct marketing provides shopping convenience. In addition, direct marketers enjoy comparatively low operating expenses because they do not have the overhead of physical stores.

Direct marketing has drawbacks. Consumers must place orders without seeing or touching the actual merchandise. To off-set this, direct marketers must offer liberal return policies. Furthermore, catalogs and to some extent, direct mail pieces are costly and must be prepared long before they are issued. Price changes and new products can be announced only through supplementary catalogs or brochures.

Direct marketing's future is difficult to forecast, given the rise of the Internet. The issue is whether or not firms relying on direct marketing can achieve and sustain a differential advantage in a growing competition with online enterprises.

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Franchising

A franchising operation is legal contractual relationship between a franchiser (the company offering the franchise) and the franchisee (the individual who will own the business).

The terms and conditions of the contract vary widely but usually the franchiser offers to maintain a continuing interest in the business of the franchisee in such areas as the site selection, location, management, training, financing, marketing, record-keeping and promotion. He also offers the use of a trade name, store motif standardized operating procedure and a prescribed territory. In return the franchisee agrees to operate under conditions set forth by the franchiser.

For the manufacturers, the franchising is beneficial in these directions:

i. it allows them to conserve capital.
ii. the distribution system is established in the shortest possible time,
iii. Marketing costs are lowest and
iv. Expenses of fixed overhead such as administrative expenses of the personnel of the company owned units are cut down substantially.

Franchising exists in such products as soft drinks, automobiles and parts, business services, dry cleaning etc.

The franchisee should also:

i. make reference check from the financial institutions.
ii. make inquiries about the product, its quality, appeal, exclusiveness, competitiveness and effectiveness in bringing in repeat customers.
iii. have enough capital to buy the franchise,
iv. be capable of taking supervision work.
v. consult the professionals and seek their guidance in legal matters, vi. take risks and invest sufficient time.

Summary

Retailers may be classified by form of ownership and key marketing strategies.

Also, types of retailers distinguished according to product assortment, price and customer service levels. Mature institutions such as department stores, discount houses and super markets face strong challenges from new competitors, particularly chain stores or multiple shops in various product categories.

Five major forms of non store retailing such as direct selling, telemarketing, automatic vending, on line retailing and direct marketing are discussed in detail. Each type has advantages as well as drawbacks. Franchising in particular, is growing dramatically. In this lesson, all these are explained in detail.

LESSON 3 RETAIL STRATEGY

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Overview:

In the last two lessons, we have seen the meaning of retailing, functions and importance of retailing, and the overview of retailing. Further we have also seen various types of In - store and non store retailing in general and department stores chain stores and franchise in particular.

In this lesson we will look into the function of strategy, elements of retail strategy, and achieving competitive advantage and positioning.

Function of a strategy

The primary purpose of a strategy is to provide a method, route, way or channel with the clean direction to follow in managing a business over the planning period. A successful strategy should satisfy three requirements.

(i) First, a strategy must help to achieve coordination among various functional areas to the organisation.

(ii) Second, strategy must clearly define how resources are to be allocated. At any level of the organisation, resources are limited. Strategy entails allocating resources to achieve the goals set with in the time frame.

(iii) Third strategy must show how it can lead to a superior market position. A good strategy takes cognizance of existing and potential competitors and their strengths and weaknesses.

Retailers classified by marketing Strategies

Whatever its from of ownership, a retailer must develop marketing mix strategies to succeed in its chosen target markets. In retailing, the marketing mix, emphasizes product assortment, price, location, promotion and customer services designed to aid in the sale of a product. They include credit, delivery, gift wrapping, product installation, merchandise returns, store hours, parking and- very important personal service.

We will now describe the classification of retail stores, paying particular attention to the following three elements of their marketing mixes:

- Breadth and Depth of Product assortment
- Price Level
- Amount of customer services.

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Type of Store	Breadth and Depth of	Price Level	Amount of Customer
Department store	Very broad, deep	Avoids price competition	Wide array
Discount store	Broad, Shallow	Emphasises low prices	Relatively few
Limited-line store	Narrow, deep	Traditional type avoid price	Vary by type
Specialty store	Very narrow, deep	Avoids price competition	Standard
Off-price retailer	Narow, deep	Emphasises low prices	Few
Super Market	Broad, deep Narrow	Low prices	Few
Convenience Store	Very broad	High prices	Few

Stores of different sizes face distinct challenges and opportunities. Buying, Promotion, Staffing and expense control are influenced significantly by whether store's sales volume is large or small. Size of a retail business creates certain merits and demerits which we have already discussed. Considering these factors, large stores ordinarily - but not always - have a competitive advantage over small stores.

Competitive Positions of Large and Small Retailers

Selected bases for Evaluation	Who has the advantage
• Division of labour and specialisation of management	Large-scale retailers-their biggest advantage
• Flexibility of operations - Product selection, store design, services offered.	Small retailers - their biggest advantage.
• Buying power	Large retailers buy in bigger quantities and thus get lower wholesale prices.
• Access to desirable merchandise	Large retailers promise suppliers access to large number of customers.
• Development and promotion of retailer's own brand.	Large retailers.
• Efficient use of advertising, especially in city-wide area.	Large retailers' markets match better with media circulation.
• Ability to provide top quality personal service.	Small retailers, if owners pay personal attention to customers.
• Opportunity to experiment with new products and selling methods.	Large retailers can better afford the risks.
• Financial strength	Large retailers have resources to gain some of the merits noted above.
• Public image	Small retailers enjoy public support and sympathy.

Small retailers face a variety of difficulties and many fail. The strong economy during the second half of the 1990s helped small merchants hold their own, however. In fact the number of failures was lower than last decade and just below the level at the start of the decade.

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How do small retailers succeed? They understand their target markets very well. Then, in seeking to satisfy their consumers, they need to differentiate themselves from large retailers. Here are two possible avenues not just to survival but to success.

Many consumers seek benefits that small stores often provide better than large stores. For instance, some people seek high levels of shopping convenience. Small outlets located near residential areas offer much convenience. Other consumers desire abundant personal service. A small store's highly motivated owner-manager and customer-oriented sales staff may surpass a large store on this important shopping dimension.

Numerous small retailers have formed or joined contractual vertical marketing systems. These entities called voluntary chains or franchise systems - give members some of the advantages of large stores, such as specialised management, buying power and a well-known name.

OPERATING EXPENSES AND PROFITS

Total operating expenses for retailers average 28% of retail sales. In comparison wholesaling expenses run about 11% of wholesale sales or 8% of retail sales. Thus roughly speaking, retailing costs are about 2 $^{1}/2$ times of the costs of wholesaling when both are stated as a percentage of the sales of the specific type of middlemen.

Higher retailing costs are the result of dealing directly with ultimate consumers-answering their questions, showing them different products and so on. Compared to wholesale customers, ultimate consumers typically expect more convenient locations with nicer decor, both of which drive up retailers' costs. Also relative to wolesalers, retailers typically have lower total sales and lower rates of merchandise turnover.

Retailers buy smaller quantities of merchandise, again compared to wholesalers, so their overhead costs are spread over a smaller base of operations. Furthermore, retail sales people often cannot be used efficiently because customers do not come into stores at a steady rate.

COMPETITIVE ADVANTAGE WITH SPECIAL REFERENCE TO PHYSICAL FACILITIES

Another competitive advantage of retailers will be how they create physical facilities which represent the distribution element of a retailer's marketing mix.

Some firms engage in non-store retailing by selling on hire or through catalogs or door to door, for example-but many more firms rely on retail stores. Firms that operate retail stores must consider four aspects of physical facilities.

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Location

It is frequently stated that there are three keys to success in retailing: Location, Location, Location! Although overstated, this axiom does suggest the importance that retailers attach to location. Thus a stores site should be the first decision made about facilities. Considerations such as surrounding population, traffic and cost determine where a store should be located.

Size

This factor means the total square footage of the physical store, not the magnitude of the firm operating the store. These are much different factors. A firm may be quite large with respect to total sales, but each of its outlets may be only several thousand square feet in size.

Design

This factor refers to a stores appearance, both interior and exterior over its competitor.

Layout

The amount of space allocated to various product lines, specific locations of products and a floor plan of display tables and racks comprise the store's layout.

As would be expected, the location, size, design and layout of retail stores are based on where consumers live and how they like to go about their shopping. Consequently, the bulk of retail sales occur in urban, rather than rural, areas. And suburban shopping areas have become more and more popular, where as many down town areas have declined.

ASSESSING COMPETITORS CURENT STRATEGIES

The first part in competitor analysis is to determine how competitors are attempting to achieve their objectives. This question is addressed by examining their past and current marketing strategies.

Marketing Strategy

Many authors have attempted to explain the concept of strategy. At the retail level, a marketing strategy can be thought of three major components: target selection of customers, core strategy (i.e. positioning and differential advantage), and implementation (i.e. supporting marketing mix).

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The first major component is the description of the market segment(s) to which competing brands are being marketed. Market segments can be described in various ways. Since few brands are truly mass marketed, the key is to determine which group each competitor has targeted.

The second strategy component is what is called the core strategy. This is the basis on which the rival is competing, that is its key claimed differential advantage(s). Differential advantage is a critical component of strategy because it usually forms the basic selling proposition around which the brand's communications are formed. It is also called the brand's positioning.

The final strategy component of competitors that must be assessed in the supporting marketing mix. The mix provides insight into the basic strategy of the competitor and specific tactical decisions. These decisions are what customers actually see in the market place. In fact, customers are exposed to price, advertising, promotion and other marketing mix elements.

Technology Strategy

An important task is to access the technological strategies of the major competitors. This can be done by using the following framework of six criteria.

1. Technology selection or specialisation.
2. Level of competence.
3. Sources of capability: Internal vs External
4. R&D investment level.
5. Competitive timing: Initiate vs Respond
6. Retail policies

These decisions generally lead to better understanding of retailers' competitors.

Following is the Format of for Competitive Retail Analysis

	Competitor A	Competitor B
Place:		
Distribution method		
Distribution coverage		
Promotion:		
Total effort (Rs.)		
Methods		
Advertising:		
Strategy		
Media		
Timing		

Price:

Retail

To Trade

Technological strategy

Product:

Quality

Features

Benefits

Target Segment:

Who

Where

When

Why

PREDICTING FUTURE STRATEGIES

We now have three sets of information about the competitors in the retail category. First, we have assessed how are they going to fulfill their objectives. Second we have made a judgment about their current retail marketing strategy. Finally, we have some idea about their resources and how they compare to ours. The final step is to put it all together and answer the question: What are they likely to do in the future? In particular, we are interested in their likely strategies over the subsequent planning horizon, usually a year.

The competition does not come right out and indicate what strategies they will pursue. In that case, subjective estimates can be based on the information previously collected and analysed. One way to approach the problem is to emulate what forecasters do with historical data. With historical observations on both a dependent variable (in our context, a competitor's strategy) and independent variables useful to predict the dependent variable (the reasonable variables), the forecasters might do one of two things:

i. First, the forecaster might assume the trend will continue, that is suppose that the only relevant information is the historical pattern of past strategies. For example, if a retail store has a track record of positioning with a high-quality, high-price program, are called extrapolate into the future and assume the trend will continue.

ii. Second, if a retail brand has been appealing to increasing mature consumers, a manager might assume, it will continue to do so. An alternative way for the forecasters to proceed is to try to establish a cause-and-effect relationship between the resource variables and the strategy, in other words, to link changes in resources or abilities to the strategies to be pursued.

Another approach to forecasting competitors' possible actions is to simulate them. One can take existing data already collected, have different managers play the roles of the retail managers for the competitors, and develop competitor action scenarios.

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Summary

Competitive analysis is an important component of strategy development. Here retail positioning also play a vital role in the development of competitive strategy. Many approaches have been discussed and this lesson provides a framework that integrates several of these. The key ingredient in this lesson is evolving retail strategy and how it should be used to achieve competitive advantage over its rival retail shops.

LESSON 4 RETAIL ENVIRONMENT

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OVER VIEW:

We are by now aware that excellent companies take an outside - inside view of their business. These companies monitor the changing environment continuously adapt their businesses to their best opportunities. In the last three lessons we have seen general over view of retailing, types of retailing including non-store retailing and the strategy adopted by retailers.

To the company's marketers falls the major responsibility for identifying major changes in the environment. The retail environment, in particular, in constantly spinning out new opportunities, in bad as well as in good years.

The general marketing environment also spins out new threats-such as an energy crisis, a sharp rise in interest rates, a deep recession-and firms find their markets collapsing. Recent times have been marked by many sudden changes in the marketing environment, leading Drucker to dub it an Age of Discontinuity and Toffler to describe it as a time of Future Shock.

Retail marketers need to continuously monitor the changing scene. They must use their intelligence and marketing research to track the changing environment. By erecting early warning systems, retailers will be able to revise marketing strategies in time to meet new challenges and opportunities in the environment.

What do you mean by retail environment? A retail marketing environment consists of the external actors and forces that affect the retailers ability to develop and maintain successful transactions and relationships with its target customers.

We can distinguish between the retailers' micro environment and macro environment. The micro environment consists of the actors in the retailer's immediate achievement that affect its ability to serve its markets: Suppliers, intermediaries, customers, competitors and publics. The macro environment consists of legal, social, economic and technological forces. We will first examine the retailers micro environment and then its macro environment.

ACTORS IS THE RETAILER'S MICRO ENVIRONMENT

Every retailers' primary goal is to profitably serve and satisfy specific needs of chosen target markets. To carry out this task, the retailer links himself with a set of suppliers and a set of intermediaries to reach its target customers. The suppliers / intermediaries / customers chain comprise the core marketing system of the retailer.

We will now look at the forces which after the retailers micro environment.

SUPPLIERS

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Suppliers are business firms and individuals who provide resources needed by the retailer. For example a retail store must obtain various products from different suppliers so that as and when customers come and ask the products, he will be in a position to sell them on time.

Developments in the 'suppliers' environment can have a substantial impact on the retailer's marketing operations. Retail managers need to watch price trends of their key inputs. They are equally concerned with supply availability. Supply shortages and other events can prevent fulfilling delivery promises and lose sales in the short run and damage customer goodwill in the long run. Many shops prefer to buy from multiple sources to avoid depending on any one supplier who might raise prices arbitrarily or limit supply.

Retail purchasing agents try to build long-term trusting relationships with key suppliers. In times of shortage, these agents find that they have to 'market' their shop to suppliers in order to get preferential supplies.

INTERMEDIARIES

Intermediaries are firms that aid the retail shop in promoting selling and distributing its goods to final buyers. Large business organizations might hire agents to find retailers in various South Indian cities and pay commission to these agents based on their success. The agents do not buy the merchandise - they direct retailers to buy and sell ultimately to the consumers.

Physical distribution firms assist the retailer in stocking and moving goods from their original locations to their destinations. Warehousing firms store and protect goods before they more to the next destination. Every retailer has to decide how much storage space to build for itself and how much storage space allotted for different merchandise.

Marketing service agencies-marketingresearch firms, advertising agencies, media firms and marketing consulting firms - assist the retailer in targeting and promoting its products to the right markets. The retailer has to review the products sold periodically and must consider replacing those that no longer have demand in the market as expected.

Financial intermediaries include banks, credit companies, insurance companies and other companies that help finance firm and / or insure risk associated with the buying and selling goods. Most retailers and customers depend on financial intermediaries to finance their transactions.

CUSTOMERS:

A retailer links himself with suppliers and middlemen, so that he can efficiently supply appropriate products and services to its target market. Its target market may be individuals and households that buy goods and services for personal consumption.

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COMPETITIRORS:

A retailer rarely stands alone in its effort to serve a given customer market. His efforts to build an efficient marketing system to serve the market are matched by similar efforts on the part of others. The retailer's marketing system is surrounded and affected by a host of competitors. These competitors have to be identified, monitored and outmaneuvered to capture and maintain customer loyalty.

A basic observation about the task of competing effectively can now be summarised. A retailer must keep four basic dimensions in mind, which can be called Four CS of market positioning. He must consider the nature of the customers, channels, competition and his own characteristics as an organisation. Successful retailing is a matter of achieving an effective alignment of the organisation with customers, channels, and competitors.

FORCES IN THE RETAILERS MACRO ENVIRONMENT

Various elements such as demographic, legal, social, economic and technological variables affect an organisation and its marketing efforts. It is now recognized by all that even a well concerned marketing plan may fail if adversely influenced by uncontrollable factors (demographic, legal etc.). Therefore the external macro environment must be continually monitored and its effects incorporated into Retailer's marketing plans.

The External Environment of Retail Marketing

Demographic Environment	**Social Environment**	**Political / Legal Environment**
	Uncontrollable Variables	
Technological Environment		**Economic Environment**

Demographic Environment

The first environmental fact of interest to retailers is population because people make up markets. Retailers are keenly interested in the size of the population, its geographical distribution, density, mobility trends, age distribution and social ethnic and religious structure.

Demographic structure is seldom static for long and changes in its composition often test the residency of a marketing firm. Further, these changes influence the behaviour of consumers which, in turn, will have a direct impact in the retailer's business. The ripples of these changes will reach the organisation forcing it to alter or amend the existing marketing practices in vogue. In short,

Retail firms, will have to continuously measure the changes - qualitative as well as quantitative - that are taking place in the population structure. To avoid negative consequences brought on by active consumer groups, a retailer must communicate with consumers, anticipate problems, respond to complaints and make sure that the firm operates properly.

Political / Legal Environment

Retail marketing decisions are substantially impacted by developments in the political / legal environment. This environment is composed of laws, government agencies and pressure groups that influence and constrain various organisations and individuals in society.

Legislation affecting retail business has steadily increased over the years. The legislation has a number of purposes.

The first is to protect from each others. So laws are passed to prevent unfair competition. The second purpose of Government regulation is to protect consumers from unfair retail practices. Some firms, if left alone, would adulterate their products, tell lies in their advertising, deceive through their packages and bait through their prices. Unfair consumer practices have been defined and are enforced by various agencies.

The third purpose of Government Regulation is to protect the larger interest of society against unbridled business behaviour. The retail marketing executive needs a good working knowledge of the major laws protecting competition consumers and the larger interests of society.

Social/ Cultural Environment

In recent years, the concept of social responsibility has entered into the marketing literature as an alternative to the marketing concept. The implication of socially responsible marketing is that retail firms should take the lead in eliminating socially harmful products such as cigarettes and other harmful drugs etc. There are innumerable pressure groups such as consumer activists, social workers, mass media, professional groups and others who impose restrictions on marketing process and its impact may be felt by retailers in doing their business.

The society that people grow up in shapes their basic beliefs, values and norms. People live in different parts of the country may have different cultural values - which has to be analysed by retail business people/firm. This will help them to reorient their strategy to fulfill the demands of their consumers.

Retail marketers have a keen interest in anticipating cultural shifts in order to spot new marketing opportunities and threats. Several firms such as ORG, MARG etc. offer social / cultural forecasts in this connection. For example, marketers of foods, exercise equipment and so on will want to cater to this trend with appropriate products and communication appeals.

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Economic Environment

Retail markets consist of purchasing power as well as people. Total purchasing power is a function of current income, prices, savings and credit availability. Marketers should be cognizant of major trends in the economic environment.

The changes in economic conditions can have destructive impacts on business plans of a firm. Economic forecasters looking ahead through the next decade are likely to find their predictions clouded by the recurrent themes of shortages, rising costs and up and down business cycles. These changes in economic conditions provide marketers with new challenges and threats. How effectively these challenges could be converted into opportunities depend on well-thought-out marketing programmes and strategies.

Further, no economy is free from the tendency of variation between boom and depression, whether it is a free economy or controlled economy. In any event, economic swings affect marketing activity, because they affect purchasing power.

Retail marketing firms are susceptible to economic conditions, both directly and through the medium of market place. For example, the cost of all inputs positively respond to upward swing of economic condition - which will affect the output price and consequently affect the sales. The effect on consumers also influences the marketing through changes in consumer habits. This is an indirect influence.

For example, in the event of increase in prices, consumers often curtail or postpone their expenditures. Conversely, during time of fall in prices, consumers are much less conscious of small price differences and would buy luxury and shopping products.

Technological Environment

The most dramatic force shaping people's lives is technology. Advances in technology are an important factor which affect detail marketers in two ways.

First, they are totally unpredictable and secondly, adoption of new technology often is prevented by constraints imposed by internal and external resources. At the same time, it should be remembered that technological progress creates new avenues of opportunity and also poses threat for individual firms.

Technology has helped retailers to measure the products with modern weighing machines. Earlier, they have used balances which could not measure the merchandise correctly. With the help of weighing machine, products can be measured with the result customer satisfaction can be enhanced. In the following areas where technology have been extensively used.

1. Packing of the products
2. Printing the name of the shop on the product visibly
3. Modern refrigerators where merchandise can be used for a long time and
4. Billing.

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Technological change faces opposition from one group of people-telling that it may lead to retrenchment of employees. But in the long run, this argument may not sustain, retail marketers need to understand the changing technological environment and how new technologies can serve human needs. They need to work closely with research and development people to encourage more consumer oriented research. The retail marketers must be alert to the negative aspects of any innovation that might harm the users and create consumer distrust and opposition.

SUMMARY

In this lesson we have studied the meaning of retail environment, actors in the retailers micro environment in general and supplier / intermediaries / customers in particular, forces in the retailers macro environment such as demographical, social / cultural, political / legal, economic and technological forces. Further, this lesson, has given a clear picture about the existing environmental factors which has to be studied and analysed by the retail marketer carefully and steps have be taken by them to survive in the competitive retail marketing filed.

LESSON 5 TRENDS IN THE INDIAN RETAIL INDUSTRY

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INTRODUCTION:

In this lesson, we will discuss the present scenario of Indian Retail Industry, skills needed for organized retailing, overview of Indian retail sector, modernization in Indian Retailing and factos underlying modernization in retailing.

Retailing in India has traditionally been fragmented, while in the western countries, big retailers usually dominate the landscape. In recent times, India has seen the emergence of several organized retailing formats, from departmental stores like Shopper's Stop to discount stores like Big Bazaar. We also have niche (exclusive) stores like Music World, Coffee Day and Planet M and Grocery Stores like Spencer's, subiksha etc.,

SKILLS NEEDED FOR ORGANIZED RETAILING

The skills needed for organized retailing encompass many activities, like deciding on stock levels, the product mix, brand mix and human relations, customer and employee management skills dealing with regulatory authorities and cost control. Merchandising and supply chain management, in addition to customer service is how we could summarise the range of activities performed at an average retails store.

As the retailing scenario evolves in India we will see many changes in the types of retail stores their sizes and competitive strategies. For example, the major retail chains in India are upmarket and the concept of discount stores is just catching on. Also, the food stores seem to be the major growth area, followed by garment -based retailing.

OVER VIEW / RECENT TRENDS IN THE INDIAN RETAIL SECTOR

Indian retailing is undergoing a process of evolution and is poised to undergo dramatic transformation. The traditional formats like hawkers, grocers and paan shops co-exit with modern formats like Super- markets and Non-store retailing channels such as multi level marketing and teleshopping. Modern stores trend to be large, carry more stock keeping units, have a self-service format and an experiential ambience. The modernization in retail formats is likely to happen quicker

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in categories like dry groceries, electronics, mens' apparel and books. Some reshaping and adaptation may also happen in fresh groceries, fast food and personal care products.

In recent years there has been a slow spread of retail chains in some formats like super markets, malls and discount stores. Factors facilitating the spread of chains are the availability of quality products at lower prices, improved shopping standards, convenient shopping and display and blending of shopping with entertainment and the entry of Tatas into retailing.

Foreign direct investment in the retail sector in India, although not yet permitted by the Government is desirable, as it would improve productivity and increase competitiveness. New stores will introduce efficiency. The customers would also gain as prices in the new stores tend to be lover. The consequences of recent modernization in India may be some what different due to lower purchasing power and the new stores may cater to only branded products aimed at upper income segments.

The Indian retail environment has been witnessing several changes on the demand side due to increased per capital income, changing lifestyle and increased product availability. In developed markets, there has been a power shift with power moving from manufactures towards the retailers. The strategies used by retailers to wrest power include the development of retailers own brands and the introduction of slotting allowances which necessitate payments by manufactures to retailers for providing shelf space for new products. The recent increased power of retailers has led to the introduction of new tactics by manufactures such as every day low pricing, partnership with retailers and increased use of direct marketing methods.

FACTORS UNDERLYING TRENDS OF MODERN RETAIL IN INDIA

The earlier part of this lesson has provided some information that enables the construction and analysis of recent trends in the Indian Retail Industry. The driving forces towards that trend can be broadly classified into the following categories.

i) Economic development
ii) Improvements in civic situation
iii) Changes in government polices
iv) Changes in consumer needs, attitudes and behavior
v) Increased investment in retailing
vi) Rise in power of organized retail.

The development of the Indian economy is a necessary condition for the development of the Indian retail sector. The growth of the economy can provide gainful employment to those who would otherwise enter retailing in areas like

roadside vending and other similar low cost entries into the retail sector. The growth of modern retail is linked to consumer needs, attitudes and behavior. Marketing channels including retailing emerge because they receive impetus from both the supply side and the demand side. On the demand side, the marketing channel provides service outputs that consumer's value.

In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts. Store ambiance includes such as lighting, cleanliness, store layout and space for movement.

The government of India has clarified on a number of occasions that foreign dried investment will not be permitted in India in the retailing sector. Major international retailer organizations are waiting for signals of policy change especially in the wake of Chinese permission for foreign investment in its retail. In opening up the retail sector, the government may consider various approaches such as insisting an joint ventures, limiting the foreign stake, or specifying the cities where investment is permitted.

Although FDI is not yet permitted in retailing, a number of global retailers are testing the waters by signing technical agreements and franchises with Indian firms. Fast food chains like McDonald's and Pizza Hut are already operating in the metres. A Marks and Spencer Store is already operational in Mumbai. Recent trends show that industrial groups such as Reliance and Raymonds have been active in encouraging development of well appointed exclusive showrooms for their textile brands. Industrial houses like Rahejas, Tatas have entered retailing. Several Indian and foreign brands have used franchising to establish exclusive outlet for their brands.

SUMMERY:

The Indian retail sector is largely traditional but stores in modern format are emerging. Though the contribution of organized retailing in the retail sales in India though small in the last decade, but currently it is picking up very fast spreading their activates not only in metros but in other cities. Modern management techniques are used in managing the affairs of retail sector. Firms will need to proactively review their sales structures, brand activates, logistics policy and price structure to cope with pressures from powerful retailers.

QUESTIONS :

1. Explain the term ' Retailing'.
2. On what basis stores may be classified?
3. Write a note on product retailing.

4. What do you understand by the term service retailing?
5. Discuss the classification of non-store retailing.
6. Discuss in detail how legal and social factors affect retail environment.
7. What strategies being used to overcome competitions in the retail sector?
8. How positioning plays an important role in retail marketing?
9. How economic factors affect retail environment?
10. Do you think technological factors affect the progress of retail industry?
11. Explain the factors which affect trends in the Indian Retail Industry.
12. Discuss the overview of Indian Retail Industry.
13. Explain the recent trends in the Indian Retailing industry.

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UNIT - II RETAIL STORE LOCATION AND LAYOUT

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IMPORTANCE OF LOCATION DECISION

Even though non store retailing is growing, most of the retailers are still selling from retail store space. Some of these retailers are very small single-store operators, and some are huge superstore discounters. Each location selected resulted from an effort to satisfy the needs of the particular market each was designed to serve. Whether it was the customer's need for convenience, their desire to do comparison shopping, the extent of the purchasing power in a market area, of the transportation facilities available, many factors together led to the development of different kinds of retail locations. There is an old saying that the value of real estate is determined by three things: location, location, and location. Nowhere is that more the case than with stores.

A wall street journal study looked at the largest store as measured by gross sales of the twenty largest brands. Not surprisingly, in nearly every case, a unique location was a major factor. The study provides some interesting examples. A Baskin –Robbins store is in a Waikiki mall where it is the only food store.

Crowds of tourists year round summer whether and a known brand lead to sales exceeding $1 million a year. An on-base Domino Pizza store on a military installation with 11,000 Marines and their families sells as many as 4,000 pizza's week. In New York, across from Macy's, which generates enormous traffic, where Sixth Avenue and Broadway converge, a Florsheim men's shoe store serves some 30,000 customers a year.

Retail stores should be located where market opportunities are best. After a country, region city or trade area, and neighbourhood have been identified as satisfactory, a specific site must be chosen that will best serve the desired target market. Site selection can be the difference between success and failure. A through study of customers and their shopping behaviour should be made before a location is chosen. The finest store in the world will not live up to it potential if it is located where customers cannot or will not travel to shop. The primary role of the retail store or center is to attract the shopper to the location. Alternatively, retailers must take the store to where the people are, either at home or in crowds. Examples of taking the store to where the crowds are include airport location, theme parks and vending machines.

Every retail store strives for its competitive advantage. For some stores, it is price. For others, it is promotional expertise of the special services that are offered. Despite any differences among the various stores that may competing for

the shopper's rupees location offers a unique asset for all stores because once a site is selected, it cannot be occupied by another store. This advantage, however, points to the importance of location analysis and site selection. Once a facility is built, purchased, or leased, the ability to relocate may be restricted for a number of years.

In short, location and site selection is one of the most important decisions made by a retail owner. We need to look for ways to optimise this process.

Retailing Strategy and Location

A retailer should first begin with a mission statement. This helps retailer, its employees, and its customers understand the purpose of the business. The core concepts and culture that come from a mission statement flow from the choice of the strategies selected in an attempt to achieve a competitive advantage. Location may be the primary strategy selected, or it may be merchandise, pride, service, or communication. Whatever strategy is emphasized, location is a critical variable.

Owners or managers who wish to emphasize merchandise quality will require an entirely different location than managers of a low-margin discount house.

Just as the strategy and objectives of a retailer are integral to the location decision process, so is the importance of market research. The use of marketing research criteria in deciding on a location depends on what type of information or answer is needed from the research time and cost factors, and the importance of the decision in the overall strategy.

Characteristics Used in Location Analysis

The several characteristics used in location analysis. The key ones include

1) Demographics,
2) Economic,
3) Cultural,
4) Demand,
5) Competition, and
6) Infrastructure.

Some of the characteristics will be more helpful in the discussion of the

a) macro areas (**country and region**) as opposed to the
b) micro areas (**trade area and site evaluation**), and vice versa.

We introduce each characteristic in the discussion of country and region analysis and then return to each as appropriate in the micro areas.

A) Country and Regional Analysis

Many retailers have found success establishing locations in other countries. Because of the high market saturation in the United States, many U.S. retailers ranging from

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Toys R' Us and McDonald's to J.C.Penney have expanded overseas in an effort to improve their bottom line. On the other hand, there are many important market characteristics in the United States that have attracted overseas retailers like Laura Ashley, Benneton, and the Body shop.

There is a need to recognize that country analysis will be an increasingly important aspect of the location strategy as merchants look for growth opportunities.

After the decision is made as to what country or countries are to be considered, a regional analysis will need to be done. Most countries are not completely homogeneous and need to be broken down into regions in order for a retailer to better understand the market characteristics. For example, the United states normally divided into the following regions: Pacific, Mountain, West North central, East North central, West south central, East South central, South Atlantic, Middle Atlantic, and New England. Regions may differ in many characteristics such as population demographics and density, climate, cultures, and distribution infrastructure.

The importance of examining countries and regions by their macro characteristics can be illustrated by the importance of today's distribution infrastructure to the concept of **flow-through replenishment.** This concept is based on having information on consumer demand that allows the flow of goods to be regulated by actual needs in the retail stores. Consumer demand is acquired at the point of sale terminal when the UPC bar code is scanned for each product sold. Computers maintain continuous records of product flow. Daily or weekly reorders go directly. To manufactures so that exact quantity replacement can be shipped to each individual store or routed to the retailers central distribution center. If this is a part of the firm's competitive advantage, the country or region must have the transportation, computer, and warehousing infrastructure necessary to support the strategy.

1) Demographics

Demography is the study of population characteristics that are used to describe consumers. Retailers can obtain information about the consumer's age, gender, income, education, family characteristics, occupation, and many other items. These **demographic variables** may be used to select market segments, which become the target markets for the retailer. Demographics aid retailers in identifying and targeting potential customers in certain geographic locations. Retailers are able to track many consumer trends by analysing changes in demographics. Demographics provide retailers with information to help locate and describe customers. Linking demographics to behavioural and lifestyle characteristics helps retailers find out exactly who their consumers are. Retailers who target certain specific demographics characteristics should make sure that those characteristics exist in enough abundance to justify locations in new countries or regions.

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2) Economic

Businesses operate in an economic environment and base many decisions on economic analysis. Economic factors such as a country's gross domestic product, current interest rates, employment rates, and general economic conditions affect how retailers in general perform financially. (**Gross domestic product** is a measure of the goods and services produced in the country.) For example, employment rates can affect the quantity and quality of the labour pool available for retailers as well as influence the ability of customers to buy.

Normally, growth in a country's gross domestic product indicates growth in retail sales and disposable income. Retailers want to locate in countries or regions that have steadily growing gross national products. As interest rate rise, the cost of carrying inventory on credit rises for retailers and the cost of purchasing durable goods rises for consumers. Countries that have projected significant increases in interest rates should be evaluated very carefully by retailers. Retailers will also be affected by a rise in employment rates ; this lowers the supply of available workers to staff and support retail locations.

Let's consider the example of China. The country has a billion people, a low but growing per capita income, and major urban areas even though the country is largely rural. Consumers are used to purchasing food product on an almost daily basis. They pay close attention to prices and often preferred to haggle. Japan's supermarket chain, yaohan, sees increasing economic well being as a signal for opportunities in china. A wall street journal article tells how the Japanese firm is attacking the market : – Yaohan's joint – venture super market, a 7,000 – square – foot store wedged into the ground floor of an apartment complex in a working class district, sells most locally produced fresh and packaged goods at prices that match or beat those at local stores. The company plans to open 1,000 stores buy the year 2010.

3) Cultural

Cultural characteristics impact how consumers shop and what goods they purchased. The values, standards, and language that a person is exposed to while growing up are indicates of future consumption behaviour. Consumers want to feel comfortable in the environment in which they shop. To accomplish this, retailers must understand the culture and language of their customers. In a bilingual area, a retailer may need to hire employees who are capable of speaking both of the languages spoken by the customers.

Some retailers have found it useful to market to the cultural heritage of their consumers, while other retailers seek to market cross – culturally. Normally larger cultures are made of many distinct subcultures. Retailers need to be aware of the different aspects of culture that will affect the location decision. For example, greeting cards sold in the United States normally have verses on the inside, while greeting cards sold in Europe normally do not.

4) Demand

The demand for a retailer’s goods and services will influence where the retailer will locate its stores. Not only must consumers want to purchase the goods, but they must have the ability or money to do so as well. Demand characteristics are a function of the population and the buying power of the population that the retailer is targeting.

Population and income statistics are available for most countries and regions with developed economics. In developing countries the income data may be little more than an informed guess. These statistics allow the comparisons of population and a basic determination of who will be able to purchase the goods carried in the store. This is of utmost importance for retailers, whether they carry higher-priced goods – such as durables, furniture, jewellery, and electronics – or lower – priced goods-such as basic apparel or toys.

5) Competition

Levels of competitions vary by nation and region. In some areas, retailers will face much stiffer competition than in other areas. Normally, the more industrialized a nation is, the higher the level of competition that exists between its borders. One of the environmental influences on the success or failure of a retail establishment is how the retailer is able to handle the competitive advantages of its competition. A retailer must be knowledgeable concerning both direct and indirect competitors in the marketplace, what goods and services they provide, and their image in the mind of the consumer population. Sometimes a retailer may decide to go head to head with a competitor when the reasons are not entirely clear.

6) Infrastructure

Infrastructure characteristics deal with the basic framework that allows business to operate. Retailers require some form of channel to deliver the goods and services to their door. Depending on what type of transportation is involved, distribution relies heavily on the existing infrastructure of highways, roads, bridges, river ways, and railways. Legal infrastructures – such as laws, regulations and court rulings – and technical infrastructures - such as level of computerization, communication systems, and electrical power availability also influence store location decisions.

Distributions play a key role in the location decision especially for countries and regions. There is a significant variance in quantity and quality of infrastructures across countries. A retailer whose operation depends on reliable computerization and communications would not need to even consider a country or a region that did not meet those criteria. The need for refrigerated trucks to distribute frozen juice might limit a retailer like Orange juice in its ability to expend to India. The multilevel small wholesaler infrastructure in Japan has been a major hurdle for retailers attempting to enter that market.

The legal environment is a part of the overall infrastructure a firm must consider. For example, many countries require non-native businesses to have a native partner before establishing retail locations. The legal requirements a retailer operates under in one country will not be the same for another country or region and may be different from state to state within the United States.

Another part of the location analysis at the country or regional level may be the simple fact of whether or not locations are available and can be had at rents are double those in Tokyo and New York. A corner juice stand of thirty square feet pays rent in Hong Kong of $38,000 (US$ 4,918) each month. Bossing Marketing Ltd., a clothing retailer, pays HK$ 1,000,000.

In conclusion, the demographic, demand, competition, cultural, infrastructure and economic characteristics are important in analysing a country or region.

b) Trade Area Analysis

It is important to define the market area of any potential location. you know that a retail market is any group of individuals who possess the ability, desire and willingness to buy retail goods or services. The residents of any neighbourhood, city, region, country, or group of countries may constitute a retail market. The retail trade is defined as the geographic area within which the retail customers for a particular kind of store live or work. The customer profile of a segment of the people within the geographic area that the store decides to serve is the target market. For example jaxson's restaurant in the US serves the residents and office workers in the downtown and Westside areas of El Paso as well as visitors from across the border in MEXICO.

Trade Area selection Considerations

1) Demographic.

We have said that perhaps no variables are more important to the retail manager than the demographic dimensions of a market. Whether the retail trade area is the central city, a growing suburb, or a quiet rural area, you must understand the people who live and work there.

Once the basic characteristics are identified and a judgement is made as to how far one of the customers would travel for the goods, the total market has been determined.

Factors, such as current population, potential population, population density, age, income, gender, occupation, race, proportion of home ownership, average home value, and proportion of single versus multifamily dwellings are important considerations.

Where consumers live, their commuting patterns, and whether their numbers are increasing or decreasing are but a few of the dynamic characteristics of the

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trade area population that the retailer must consider. It may be quite helpful to construct maps that display where certain types of customers reside.

As you learned, **market segmentation** is the process of grouping individuals according to characteristics that help define their needs. Each of these groups of similar individuals is called a **market segment.** No matter how many different segments you may find within any given retail market, you may choose to satisfy only one or just a few of them. Each segment that a retailer attempts to satisfy is a **target market.**

2) Economic.

Economic characteristics have a significant impact on country and region selection. The impact on trade area is even greater. The local unemployment rate will effect the local labour pool and the amount of money that consumers have to purchase products. The most important economic characteristics for the retailer are per capita income and employment rates.

3) Subculture.

Subculture have more of an impact on market and trade area selection than on country or region selection. One must normally be at the market or trade level in order to accurately gauge the location and characteristics of a subculture. An ethnic subculture creates market segments for goods ranging from food and cosmetics to clothing and entertainment. At the same time religion, language, and family structure create both opportunities and problems.

4) Demand.

The economy of an area under consideration for location should provide a general indicator of the long –range retail opportunities present within an area. The number, type, trends, and stability of industries that might affect business in the market area need to considered. Employment rates, total retail sales, segment retail sales, household income, and household expenditures all provide information from which the economic stability of the area can be ascertained. The **buying power index (BPI)** indicates the relative ability of consumers to make purchases. The BPI for most metropolitan statistical areas (MSAs) is published yearly by sales and marketing management in their survey of buying power. The BPI combines effective buying income (weighted 50 percent), retail sales (weighted 30 percent), and population (weighted 20 percent) in a single measure of the purchasing power of consumers.

The Sales Management Survey of Buying Power Index for the Top Ten markets in US

Rank	Area	Buying Power Index
1	Los Angels – Long Beach	3.328
2	Chicago	3.2821
3	New York	3.2802
4	Washington	2.1005
5	Philadephia	2.0676
6	Detroit	1.7938
7	Boston	1.6443
8	Houston	1.4994
9	Atlanda	1.4004
10	Nassau-Suffolk	1.2810
Total top ten markets		27.67
Total top fifty markets		50.8491

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Each variable is specified as a percentage of the total for the United States. For instance, when including the **effective buying income(EBI)** in the formula (the amount of personal income after such things as income, property, and social security taxes and mandatory payments on debt), it must first be divided by the EBI of the United States. This allows the BPI to be directly compared with BPI estimates from other areas. Therefore, we can express the **buying power index** as :

BPI = 0.5 (%of U.S. EBI) +0.3 (%of U.S. retail sales) + 0.2 (%of U.S. Population)

The BPI for potential markets can be directly compared to help make a choice of market area.

5) Defining the Trade Area

Since a market comprises the number of people and their spend able income, estimating where customers will shop is of critical importance to retailers. Scholars have developed many tools for defining the size of a trade area. We will examine

a) **Reilly's law,**

b) **Huff's model,**

which are called gravity models because they attempt to look at the retail customers and where they will be pulled by the gravity of retail centers. We also introduce the idea of

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c) **concentric circles and**

d) **the use of geo demographics.**

Reilly's law and Huff's model depend on assumptions and data that do not fit the real world very well. At the same time they both demonstrate some of the characteristics that are important in understanding and defining a trade area and show how a model can be constructed and used.

a) Reilly s Law

Among the most simple of the models is Reilly's law. Reilly's Law states that a customer will travel a distance to shop based on the population of the shopping area and the distance between areas. In essence, it specifies a break point will travel to the city on the same side.

Reilly's law is most useful for calculating the trade area boundaries between two cities. However, it can also be used to calculate the break point between metro areas and surrounding communities, although it is less precise. Reilly's law is based on a simple rule that population centres attract retail shoppers. A trade area can be defined by using Reilly's law to calculate the break points between a city of interest and surrounding city. The major disadvantage of Reilly's model is that it assumes all retail characteristics are proportional to the size of the population in an area. It does not explicitly consider such things as differences in retailer types or the number of stores in an area. Let's look at an example of using Reilly's law to calculate the break point between a city and the surrounding population centres.

The Trade Area Break Points for Flint, Michigan, Using Reilly s Law

City	Population	Miles from flint	Break Point distance
Flint	138,987	N/A	
Detroit	970,156	54	A 6.77 miles
Ann Arbor	109,252	50	B 22.01 miles
Lansing	126,509	50	C 23.83 miles
Saginaw	69,056	31	D 10.29 miles
Port Huron	35,000	62	E 12.47 miles

Steps to use in calculating Reilly s Law

1. Draw a line from city center to a city center between the city of interest and all surrounding cities.
2. Measure these lines with a ruler, and convert from inches to miles using the map legend. (e.g., if 15.5 miles = 1 inch, then multiply the number of inches by 15.5 to get miles)

3. Find the population of each city that is connected by a line
4. Use Reilly's formula to calculate the break point distances.

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Break point = Distance between cities
distance 1 + square root of
(population of the large city/
population of the small city)

5. Complete Table above
6. Change the break point miles into inches (e.g., if 15.5 miles by 15.5 to get inches).
7. In Reilly's law, all break points are always measured starting from the city with the smaller population. Using a ruler, measure from the smaller population city the number of inches from step 6 for each line. Mark and label these points.
8. Connect the points from step 7 to define the trade area.

b) Huff's Model

A slightly more complex alternative to Reilly's Law was developed by David Huff. **Huff s model** considers the size of the shopping center, how long it would take a customer is looking for. Huff's model gives retailers an approximate probability of how likely it will be for a consumer to travel to a specific shopping center. The formula used to calculate Huff'f model is shown below.It looks complicated, but it really isn't. Let's put it into English and go through an example.

First, the square footage of a shopping center is divided by the amount of travel time to reach that shopping center. Next, the same calculation is done for the rest of the shopping centers; those numbers along with the calculation for shopping center A are totalled. The proportion for the single shopping center is then divided by the proportion for all of the centers. Both of the travel time figures are modified by gamma(g), an adjustment for the type of product to be purchased. We will explain more about the gamma in a moment.

The calculations below indicate that a customer living in the Forest ridge neighbourhood would travel to shopping center 1 about 38 percent of the time. Another way to interpret the result is to say that 38 percent of the residents would travel to shopping center 1 to purchase the type of goods represented by a gamma of 2. Comparing the percentage estimate for shopping center 1 with the other three shopping centers, we see that consumers are about three times more likely to travel to either shopping center 1 or 2 as opposed to shopping center 3 or 4. The percentages for all the shopping centres should total 100 percent.

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Calculations for customer travel time to a given shopping center using HUFF S Model

	Shopping center 1	Shopping center 2	Shopping center 3	Shopping center 4
Travel time(minutes)	5 min	7 min	12 min	15 min
Amount of space in square feet(000)	150 sq ft	300sq ft	250 sq ft	400 sq ft

$$\textbf{Prob} = \frac{\textbf{sqft}_i}{\textbf{Travel time to competing shipping centers}}$$

When we use gamma of 2.0 and the above formula we can find how often a consumer would shop at each of the shopping centers.

Shopping center 1 = (one fifty / five to the power two) / (one fifty / five to the power two) + (three hundred / seven to the power two) + (two hundred and fifty/ twelve to the power two) + (Four hundred/fifteen to the power two) = 38.37%
Shopping center 2 = (three hundred / seven to the power two) / (one fifty / five to the power two) + (three hundred / seven to the power two) + (two hundred and fifty/ twelve to the power two) + (Four hundred/fifteen to the power two)= 39.15%
Shopping center 3 = (two hundred and fifty/ twelve to the power two) / (one fifty / five to the power two) + (three hundred / seven to the power two) + (two hundred and fifty/ twelve to the power two) + (Four hundred/fifteen to the power two) = 11.10%

Shopping center 4 = (Four hundred/fifteen to the power two) / (one fifty / five to the power two) + (three hundred / seven to the power two) + (two hundred and fifty/ twelve to the power two) + (Four hundred/fifteen to the power two) = 11.37%

As stated earlier, gamma(g) is an adjustment for the type of good that the consumer is looking for at the shopping center. Previous research had calculated gammas of 2.723 for furniture and 3.191 for clothing. The larger the estimated value of gamma, the smaller the time expenditure will be. Also, as gamma grows larger, the scope of the trading area will become smaller. Obviously, the more important the item is to the customer, the less important travel time becomes. Consumers who are shopping for a specialty good will spend more time travelling than consumers who are shopping for a convenience good. The estimate of the travel time can also vary greatly depending on the form of transportation used by the consumer.

c) Concentric Zones

One way to analyse a market area is to use maps and census tracts to construct concentric zone maps. Survey data from existing stores can determine how far

customers will travel to shop. Obviously this depends on the type of goods and the pulling impact of the location. Customers will travel much farther to shop for home entertainment equipment in a regional mall than to pick up medicine at a pharmacy.

Assume our data show that 60 percent of our customers come from less than four miles (primary zone), 25 percent come from four to eight miles (secondary zone), and 15 percent (tertiary zone) are occasional customers who come more than eight miles. The firm can now take census tract data and determine how many potential customers (owner-occupied household with income over $35,000)live in each zone. The concentric zones help describe a trade area, but a you will see, the actual market may be limited by accessibility factors. Notice how the interstate highways could limit accessibility. The actual sales potential of the store is also going to be limited by the number and location of competitors.

d) Geodemographics

The term **geodemographics** is derived from the demographics of population coupled with the geographic dimensions of populations. Retail location decisions commit large amounts of capital, and once made, the decision is fixed for a significant period of time. New techniques such as the use of geodemographic information have the potential to be very important.

Although we may describe a retail in terms of geography, every one with in that geographic area is not a potential customer. To be an effective retailer, you must group together those individuals in your trade area who possess similar needs. Within the trade area, with target market defined, a retailer can stock merchandise and provide specific services to meet the needs of those potential customers.

6) Estimating Market Potential

Once the retail trade area has been identified and the relative segmenting variables applied, certain quantitative factors must be considered to decide if the area is suitable. These factors include the retail market potential of a retail trade area and the retail ales potential. **Retail market potential** is the total dollar sale that can be obtained by all stores selling a particular retail product, product line, or group of services within the retail trade area if everything was maximized. Therefore, retail sales potential is a part of retail market potential. A **retail sales forecast** is the specific estimate of sales volume that a retailer expects. Because the retailer is new in the area or because of the entry of a new competitor, the sales forecast may be less than the estimate of retail sales potential.

There are two major determinants of the market potential for a trade area: the number of potential customers within the area and the amount of money consumers spend for the product or product line in question. For example, a retailer can estimate the market potential by multiplying the number of potential consumers in the trade area by the average amount they spend for the product. Generally, market potential figures are based on yearly estimates. Suppose, for

example, that 50,000 potential customers reside in the trade area. If it is known that each potential customer spends approximately $79 per year on gifts, the retail market potential for gift sales in that retail trade area would be $3,900,000.

Population statistics are commonly used in arriving at market potential and are expressed on a per capita, a per household, or a per family basis. The other factor is per capita expenditure.

A retail trade area may have little relationship to these political boundaries. The merchant may be able to get a more detailed breakdown of population by checking with :

- The local chamber of commerce for any detailed studies it any have made.
- The local newspaper for circulation statistics
- The local post office for the number of box holders on delivery routes
- The local public utilities office for information on the number of residential electric or gas meters
- The city planning office, fire department, and police department for information on the number of residents within a specific retail trade area. Regardless of the sources used, however, the merchant will probably find it necessary to adjust population information for a retail trade area by using the data collected in combination with individual judgement about the area.

In addition to population information, the retailer must collect data on the number of dollars being spent by consumers for the product or product line in question.

7) Estimating sales potential

You learned that the retail sales potential for a firm is the estimated dollar sales that a retailer expects to obtain in a particular retail trade area over a given period. An accurate appraisal of sales is important, because it will dictate the amount of inventory that will be purchased, the number of employees that will be needed, the dollars that can be spent for expenses, and the amount to debt capital the business can comfortably afford. To arrive at such a figure, one must consider.

- The competitive strengths in the market
- The amount of business that can be drawn from substitute products
- Management's own expertise

To assess the competitive strengths in the market, the retailer can start with an assessment of the total market potential. If the retailer assumes that the business will obtain at least average amount of sales being realized by the competitive business in the trade area, an estimate of the sales potential can be made. If there are five business (the new retail establishment makes six), each business might be expected to have one-sixth of the business available in the trade area.

Although this approach may not seem as sound as that used in measuring market potential, it does provide an analysis of competitive strength, and the figure derived is usually conservative. This approach can be useful in particular situations. Suppose, for example, that a new firm was considering entering a five-store would mean that sales potential for the new store would be \$ 466,666 (\$ 2,800,000 divided by 6). If the new firm had to do \$ 600,000-worth of business merely to break even, it would face a situation where profitability would be difficult.

8) Index of Retail Saturation

Competition exists when more than one store compete for the same market segment or target market. In some situations, a firm might like to be only one of its type in a given market area. This is particularly the case for specialty or convenience goods. On other occasions, however, good strong competition will enhance the overall business potential of a given area because it will draw shoppers from a greater distance to compare prices or stores. This is particularly the case with goods for which people often make shopping comparisons. Maps may be developed to show retail locations of competitors by relative size and merchandise mix.

One measure of the competitive structure of the market is the **index of retail saturation (IRS),** which examines the level of competitions and the retail sales in a given geographical area. There are several ways to formulate this measure. The typical IRS is calculated as area sales divided by a measure of competitive saturations (usually total square feet).

$$\text{IRS} = \frac{\text{Total market potential in the market area for the SIC code}}{\text{Total square feet of stores selling goods for SIC code}}$$

All retail stores in US are classified by different SIC codes. The first 2 of the seven digits define the broad retail group. For example, 53 is the code for automobiles.

Out shopping.

A critical element of any estimate of sales potential is out shopping. **Out shopping** occurs when individuals within your retail trade area go outside your area to shop for similar goods or services. This is a serious problem of smaller shopping areas or communities located near metropolitan areas. Box 6.4 presents an interesting ethical dilemma based on an out shopping issue.

You must be careful that your market potential and sales potential estimates do not overstate the true marketplace for your community. Out shopping can also occur for specific merchandise. In fact, the presence of out shopping may be an indicator that there is a need for specific good or service assortments within your retail trade area.

It is difficult to combat the out shopping phenomenon. The most frequently cited reason for out shopping is the belief that a better assortment of goods and

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services exists outside the immediate area. The next concern is price. Quite often, smaller communities do not have the level of competitive intensity or the aggregate volume to get prices as low as they are often found in larger metropolitan areas. For example, your author bought an alternator from Auto Zone in a town of 30,000 people less than a one-hour drive from his home and paid $84. The price in the metropolitan city was $64. How would you have felt? The best advice for areas affected by out shopping is to emphasize your merchandise assortment, promote services such as return privileges close to home, and minimize the importance of price. The smaller store cannot compete head to head on price, so do not try. Offer value; it will be the only long term win – win solution.

9) Infrastructure

We have talked about how the infrastructure –including roads and highways, distribution warehouses, communications facilities, and labour pool-must be adequate for a country or region. The same is even more true for trade area analysis. The legal infrastructure can also impact the trade area selected for your store. State and local laws vary concerning advertising, zoning, and sign restrictions for retailers.

SITE EVALUATION AND SELECTION

Types of locations

There are three major types of location that we will discuss in this section :

(I) the shopping center,

(II) the business district, and

(III) the free standing location.

I) Planned Shopping Centres

The expansion of suburbia brought with it planned residential developments. These new sub divisions were connected by many new city streets and through fares along which retail businesses could be established. The notion of the **planned shopping center** was born. Developers could plan multi store facilities that would serve the needs of these new neighbour hoods with grocery, drug, and apparel goods. With the availability of large tracts of relatively cheap undeveloped land located many miles from the inner city, but close to these new living areas, large centres could be designed that would offer one stop shopping to entire clusters of residential areas. The last thirty years witnessed the widespread development of multiunit retail strip centres and the construction of multiacre shopping malls/theme parks.

Several important issues surround the choice of locating a retail business in a planned shopping center. One important consideration is the nature of the business sharing leases space within the center. Recent research has shown that the image

of your retail business will be either positively or negatively influenced by the types of business that surround you, a process that is called image transference.

The term shopping center has been evolving since the early 1950s. Given the maturity of the industry, numerous types of centers currently exist that go beyond the standard definitions. Industry nomenclature originally offered four basic terms : 1) neighbour hood, 2) community, 3) regional, and 4) super regional. However, as the industry has grow and changed, more types of centres have evolved, and these four classifications are no longer adequate.

The international Council of shopping centers (ICSC) has defined eight principal types.

Type	Concept	Sq.ft including Anchors	Acreage	Number	Type	Anchor Ratio*	Primary Trade Area t
1. Neighbourhood center	Convenience	30,000-150,000	3-15	1 or more	Super market	30-50%	3 miles
2. Community center	General, merchandise, convenience	100,000-350,000	10-40	2 or more	Discount dept, store, supermarket, drug, home improvement large specialty/discount apparel	40-60%	3-6 miles
3. Regional center	General, merchandise, fashion (mall, typically	400,000-800,000	40-100	2 or more	Full –line dept. store, jr. dept. store, mass merchant, disc. dept. store, fashion apparel	50-70%	5-15 miles
4. Super regional center	enclosed)	800,000 +	60-120	3 or more	Full –line dept. store, jr. dept. store, mass merchant, disc. dept. store, fashion apparel	50-70%	5-25 miles
5. Fashion /speciality center	Leisure, tourist oriented, retail and service	80,000-250,000	5-25	N/A	Fashion	N/A	5-15 miles
6. Power center	Manufactures' outlet stores	250,000-600,000	25-80	3 or more	Category killers, home improvement, discount dept, store, ware house club, off- price	75-90%	5-10 miles
7. Theme/festival center	Similar to regional center, but has more variety and assortment	80,000-250,000	5-20	N/A	Restaurants, entertainment	N/A	N/A
8. Outlet center	Higher end, fashion assortment	50,000-400,000	10-50	N/A	Manufacturers' outlet store	N/A	25-75 miles

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There are other types of shopping centers that are not separately defined here but nonetheless are a part of the industry. One example is the convenience center, one of the smallest of centers where tenants provide a narrow mix of goods and personal services to a very limited trade area. A typical anchor would be a convenience store like 7-Eleven or other minimart. At the other end of size spectrum are super **off-price centers** that consist of a large variety of value – oriented retailers, including factory outlet stores, department store closeout outlets, and category killers in an enclosed mega mall (up to 2 million square feet) complex, other similar sub segments of the shopping center industry include vertical, downtown, off-price, home improvement, and car care centers.

1. Neighbourhood shopping center.

This type is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighbourhood. Roughly half of these centers are anchored by a super market, while about a third have a drugstore anchor. These anchors are supported by smaller stores offering drugs, sundries, snacks, and personal services. A neighbourhood center is usually configured as a straight –line strip with no enclosed walkway or mall area, although a canopy may connect the store fronts.

The relatively small size of the strip center means that it offers a rather narrow array of convenience or speciality stores. It is best designed to serve individuals living in the immediate vicinity or frequent passers by who would see the stores in the center as being – convenient . The neighbourhood strip center can be placed almost anywhere that land permits. Inter sections and main thoroughfares are the most popular sites.

Notably, recent changes in shopping patterns have seen a move away from urban and regional malls to these neighbourhood formats.

The **gross leasable area (GLA)** of these types of centers ranges from 30,000 to 150,000 square feet on a site of 3 to 15 acres, with the typical size being about 50,000 square feet. If the target market for a retail store matches the profile of the neighbourhood center, and it can survive with thw number of residents within the trade area served by the center, the this may be a suitable location for the business.

2. Community shopping center.

A community center typically offers a wider range of apparel and other soft goods than the neighbourhood center. Among the more common anchors are super markets, super drugstores, and discount department stores. Community center tenants sometimes include off-price retailers selling such items as apparel, home improvement/furnishings, toys, electronics, or sporting goods. The centre is usually configured as a strip, in a straight line, an – L , or a – U shape. Of the eight centers types, community centers encompass the widest range of formats. For example, certain centers that are anchored by a large discount department store

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refer to themselves as discount centers. Others with a high parentage of square footage allocated to off-prices. Retailers can be termed off-price centers.

The community centers usually has 100,000 to 350,000 or more square feet of gross leasable area. Some 90 percent of the newer centers measure less than 150,000 square feet of GLA.

A retailer's decision to locate with in a community center will be based on the ability to benefit from traffic drawn from across the entire community. Because the rental rates in the community center will be much higher than those for a neighbourhood or strip center, the revenue benefits must be worth the additional costs.

3. Regional shopping center.

This type provides general merchandise, a large percentage of which is apparel, and services in full depth and variety. Its main attraction are its anchors : traditional, mass merchants, or discount department store or fashion speciality stores. A typical regional center is usually enclosed, with an inward orientation of stores connected by a common walkway. Parking surrounds the outside perimeter.

A regional shopping centers provides full depth and variety in apparel, furniture, home furnishings, and general merchandise. Regional centers typically contain at least three large full – line department stores supplemented by numerous apparel stores, shoe stores, house hold appliance stores, furniture stores, drug stores, and super markets. More recently off – price and discount anchors have appeared as mall operators respond to the need of retaining value – conscious shoppers. Gross leasble area for this type of mall ranges between 300,000 and 1,000,000 square feet. The typical size of a regional center is above 400,000 square feet on a 40-to 100 acre site. A trade area of 200,000 or more people is normally required.

A keep point of differentiation between the community and the regional center is the extent to which people are willing to drive from one city to another to patronize a regional center. In other wards, the shopping alternatives that are available in a regional center must not be present in surrounding communities. This case is often encountered in large urbanized areas that contain multiple large-scale malls, each of which contains similar anchors. A retailer's decision to locate with in a regional mall is, again, dependent on the level of demand that is available given rental and utility costs. Another important mall location consideration is signage. As a non-anchor tenant, the lifeblood is not traffic drawn from the street by a sign or storefront but the inter anchor traffic generated with in the mail. This captured traffic, however, permits the survival of narrow niche marketers like speciality restaurants.

4. Super regional shopping center

This is similar to a regional center but because of its larger size, a super regional center has more anchors, contains a deeper selection of merchandise, and draws

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from a larger population base. As with regional center, the typical configuration is an enclosed mall, frequently with multiple levels.

The super regional shopping center is the largest of the planned centers. It encompasses the largest, most complete assortments of goods and services backed by four or more department store in the 100,000-square – foot and larger class. The gross leasable area of the super regional center ranges from 800,000 square feet to well over 1,000,000. The largest super regional, the west Edmonton Mall, is located in Edmonton, Alberta, Canada, and boasts 5.2 million square feet of floor space and 3.8 million feet of GLA. More than 20 million people visited its 823 stores, 110 restaurants, and indoor amusement park in a single year

5. Fashion/speciality center

This type is composed mainly of upscale apparel shops, boutiques, and craft shops carrying selected fashion or unique merchandise of high quality and price. These centers need not be anchored, although sometimes restaurants or entertainment can provide the draw of anchors. The physical design of the center is very sophisticated, emphasizing a rich décor and high quality landscaping. These centers usually are found in trade areas having high income levels.

6. Power center

Dominated by several large anchors, a power center includes discount department stores, off – price stores, warehouse clubs, or – category killers, that is, stores that offer tremendous selection in a particular merchandise category at low prices. Some of these anchors can be freestanding (un connected). The canter has only a minimum amount of small speciality tenants.

Power centers are usually constructed as large strip centers with atleast 75 percent of the gross leasable area devoted to three or more high-traffic high – volume discount – oriented anchor – type tenants. For example, a service merchandise, Pets Mart, Best Buy, Office Depot, and Toys R‘ Us could share a common parking area in much the same fashion as a traditional shopping center. Not all power centers are newly constructed. In fact , many viable – Power centers are traditional community shopping malls or older open centers that have been revived as discount shopping centers. In between the anchor stores are smaller leasable areas for independent or chain discount retailers. A major consideration will be price and assortments. The smaller tenant in the power center will need to be a niche discounter. While traffic counts will be very high for the power centers, the anchor stores will generally cover a broad spectrum of product lines. To successfully compete in the backyard of these discounts giants, a retailer will need to have carefully selected merchandise and services offered to be consistent with the needs of the power center shopper, but fall out side the competitive mix of the anchors.

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7. Theme / Festival center

This center typically employees a unifying theme that is carried out buy the individual shops in their architectural design and, to an extend, in their merchandise. The biggest appeal of this center is for tourists ; it can be anchored by restaurants and entertainment facilities. The center is generally located in an urban area, tends to be adapted from an older(some times historic) building, and can be part of a mixed – use project. A theme / festival center normally contains from 80,000 to 250,000 square feet and covers 5 to 20 acres. Theme centers have common architectural motifs that unite a wide range of retailers. These tenants tend to offer unusual merchandise and have restaurants and entertainment centers that serve as anchors, rather than super markets or department stores.

8. Factory outlet center

Usually located in a rural or occasionally in a tourist area, an outlet center consists mostly of manufactures stores selling their own brands at a discount. An outlet center typically is not anchored. A strip configuration is most common, although some are enclosed malls and others can be arranged in a –Village cluster. Factory outlet malls draw a combination of middle and lower class socio-economic customers. Some contemporary factory outlet centers also include some off price stores, particularly newer multilevel mall – style formats. In addition, given the larger scale for mats of outlets centers, factory outlets seem ideally suited for tourist destinations.

Factory outlet stores provide manufactures with a way to sell the products that were over produced with out going through the traditional retail distribution channel. Sensitivity to location is a key issue here since many brands can be sold in both a factory outlet store and the traditional retail store. Factory outlet stores seem to be most popular among speciality clothing, sporting goods, leather goods, luggage shoes, and house wares manufactures. A factory outlet mall is typically located at least thirty miles from national retail chains in order to draw traffic.

II) Central Business District

The **central business district (CBD)** is a shopping area located in either the central downtown area or another area in the city with a concentration of businesses. Until the mid – 1970s, the CBD was the core for shopping in most cities. When cities were relatively compact and much smaller the largest share of retail shopping was done in this downtown area. The CBD contained the largest concentration of department stores. Clothing stores, jewellery stores, variety stores, and specialty stores. When the CBD was thriving, it mad possible large scale comparative shopping for all types of merchandise. Ironically, the CBD was an early – mall concept in that stores where relatively closed and comparison could be made easily. The downtown area also met the needs of out of town shoppers, who would frequently be visiting on business or staying in a downtown hotel.

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Reuse and modernization of commercial buildings also promise to help the return of street level retail activity to downtown areas. A retailer must decided whether renovation of downtown building space is commercially feasible. The following attributes should be considered;

(1) easy access from street,

(2) abundance of foot and vehicular traffic,

(3) space and lighting for appropriate signage,

(4) physical dimensions required to support business use,

(5) a contiguous population that can correlate with the quality of shops and their brand name merchandise and the expected cost of goods, and

6) the design enticements to help make the location a unique shopping experience.

III) Free standing locations

This type of retail store stands alone, physically separate from other retail stores. It does not enjoy the same benefits that shopping centres offer from the stand point that customer of a free standing store must have made a special trip to get there. Shoppers are not – just next door and decide to walk in as they could in a mall or strip center. Freestanding locations constituted about 22 percent of all retail space, and a recent survey of retailers shows that this category leads all others for future importance.

Drive in locations are special cases of freestanding sites that are selected for the purpose of satisfying the needs of customers who shop in their automobile. In some situations, the drive – in aspect of the retail business is only to supplement existing in – store sales, but the same requirements of all drive – in location apply. These sites are usually positioned along or decide heavy traffic arteries in neighbour hoods, city streets, or inner city through fares because, as the experience of McDonald's shows, up to 55 percent of total store sales are often attributable to drive – through business. Stores that rely totally on drive – in and walk up business, such as Fox Photo, are designed to offer extremely quick service and require a significantly smaller amount of space than more traditional park – and – shop stores. In fact, drive – in – only retailers often fined that they can price competitively because of reduced overhead from smaller building and land size.

The total volume of passing traffic and the ease with which the traffic can enter and leave the store critically important to the sales potential of the entire establishment. The greater the density of traffic, the greater the potential amount of business that is likely to be derived. An automobile traffic count is absolutely necessary to identify suitable locations for drive-ins. Further more, it is important that this traffic count be separated into direction, or flow.

A traffic flow analysis may be described in terms of why a customer is making the trip : whether it is to or from work, for shopping, or for pleasure or

recreation. For example, drive-in-services for a bank would more likely be utilized during work-to-home trips than the reverse. If the objective of a drive-window of a fast food chain was to increase breakfast food sales, then a home-to-work direction would be favourable. A work-trip customer may drop off cleaning on the way to work and stop for gas on the way home.

Customers on a shopping trip are more easily stopped if a location is positioned along the right side of a through fare. Not all shopping is done between home and work. This is particularly true if a drive-in is located between the customer's place of residence and a major shopping area. If there are a number of stores located in the general vicinity, the drive-in should be on the same side of the street as those stores. To attract recreation or pleasure trip shoppers, locations along a heavily travelled artery are best. The location should be convenient to enter and leave, adjacent to the incoming traffic.

Assessing Site Evaluation Criteria

The description of locations you have just read provides most of the ideas about the evaluative criteria fro selection of a site. Putting all of the different ideas together and coming to a decision is the trick. There is no such thing as a – Perfect site. Retailers must decide which attributes are the most important to their business.

Let's summarize the key criteria critical to the site selection decision

(1) Sales potential for the site. The demographic, economic, and competition factors and strategies by which management hopes to create a competitive advantage determine the estimate of sales for a site. Growth potential should be a basic consideration in the evaluation of the sales potential.

(2) Accessibility to the site. Automobile and public transportation access to the site and adequate parking may well be defining criteria. There may be a number of barriers to the target market seeing the site as accessible. The barriers may be geographical, such as mountains or rivers. They may be psychological, such as the perceived quality of the neighbour hoods that customers must travel through. Barriers are often man made, such as one way frontage roads, bridges, clover leafs, and long term public works construction projects.

(3) Pedestrian accessibility at the site. The site must provide reasonable actual and perceived access to the store. Traffic patterns within malls or on city streets can help or hinder pedestrian access. The storefronts can intimidate or encourage entry. Neighbouring stores can bring potenial customers near or drive them away. Have you ever watched customers turn away when they have to try to get to a store through a group of teens waiting in line to get tickets to the movie in the mall?

(4) Synergies from nearby stores. We discussed image transference as either a help or a hindrance to drawing traffic to the store. There is

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cumulative attraction when business can draw more customers together than they could individually. That is why auto dealers will tend to locate where shoppers can visit each of them in a single trip. In a shopping center a group of complementary stores such as apparel and accessories benefit from being near one have similar retailing strategies on dimensions of merchandise quality and price lines, service quality and store atmosphere. Technology is providing new ways to fine –tune the site evaluation process in terms of the architectural fit with neighbouring stores. How the store and its exterior design mesh with the neighbouring stores is a concern. Advanced computer imaging allows the retailer to see how the storefront will look in the area before construction or moving begins.

(5) Site economics : Leasing and occupancy terms. The terms of the lease or purchase contracts have critical implications for the retailers. In a recent survey of retail managers, leasing options and terms were expressed as among their top concerns. Occupancy rates in the immediate or surrounding vicinity also have important implications to retail managers. For example, lower occupancy rates may improve your ability to negotiate a more favourable lease because the developer is anxious to fill vacant space; but low occupancy may signal poor access, poor market variables, or poor management relations with the center owner /developer. Further more, even if the vacant space; but low occupancy may signal poor economic viability in the market, too much vacancy can be an open door to a competitor. In fact, if the vacant space is sufficient, it can quickly be occupied by a competitor that you did not anticipate. The full range of the costs of occupancy must be considered. Local taxes, maintenance and un keep costs, renovation costs, utilities, as well as the cost to rent or own are all critical factors.

(6) Legal and political environment. Increasingly, the legal and political environment is an important consideration in site location decisions. Changes in zoning laws, taxing districts, and road maintenance projects can threaten the long run viability of a specific site.

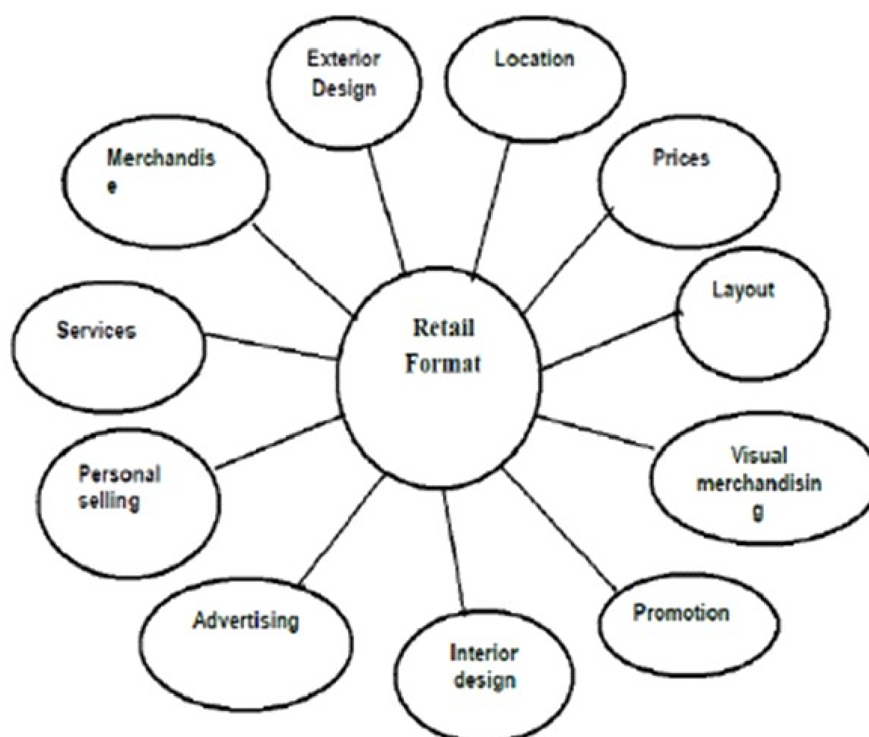
(7) Physical features. The physical features of the site and neighbouring area must not be overlooked. Whether it is raw land or an existing building, the physical dimensions of the site must fit your needs. Gap, for example, has adopted a standard layout for all its stores to simplify shelving, checkout, stock room, and merchandise display needs Consequently if a site will not accommodate this predetermined configuration it is abandoned. The size and shape of a site, visibility of a site for signs, age of surrounding buildings, traffic flows by time of day, traffic turning patterns, and number of traffic lanes have critical implications to factors such as access, number of cars that can be

parked or room for future expansion. Condition of building or rental space, visibility from the street, disabled and delivery access, parking lot condition and size, and interior décor must also be considered. A site that is functional today may not be functional tomorrow as your business expands. As an area grows, you need to be able to access whether or not the existing streets, highways, and intersections will accommodate the expanded vehicular traffic. The close proximity of older buildings may suggest that furniture development is unlikely or that the area is suffering from economic decline. Close attention to zoning must be paid when evaluating the physical features of a proposed site.

STORE DESIGN AND LAYOUT

INTRODUCTION

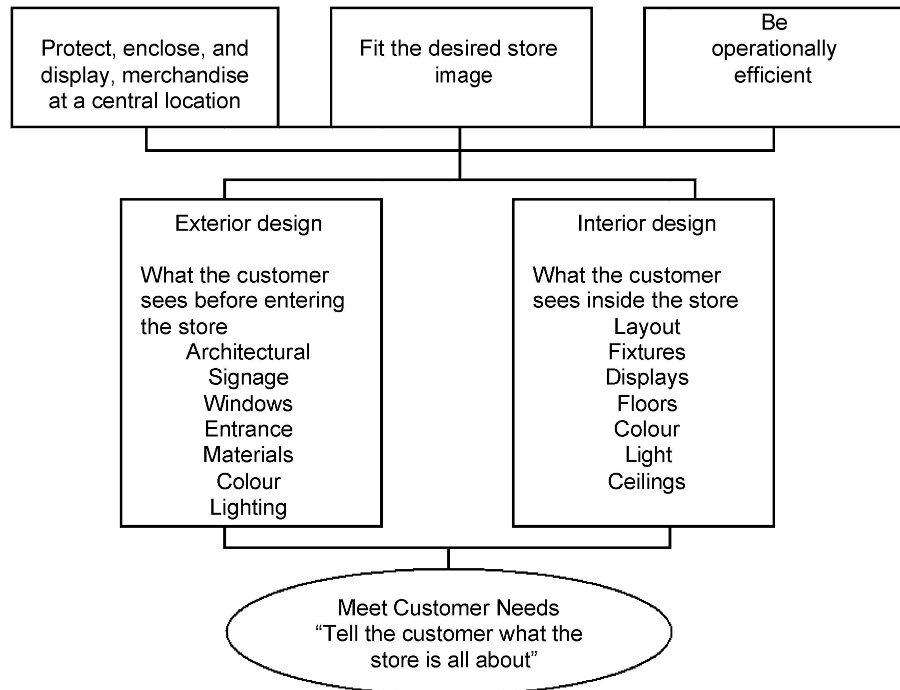
Rapid changes in consumer buying behaviour and demographics require that today's retailer be extremely flexible and creative when thinking about the store design, layout, and presentation plans. Store design and layout are derived from the retail format, and yet they area part of that format. Retail format as the total mix of merchandise, services, advertising and promotion, pricing policies and practices, location, store design, layout, and visual merchandising used to implement the sustainable competitive advantage.



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COMPREHENSIVE STORE PLANNING

In this section we will discuss some overall planning concepts. We will then turn to more details regarding exterior design, interior design, layout management, and interior design elements.



Store design

Store design is the architectural character or decorative style of a store that conveys to the customer – what the store is all about. Stores vary so much in kind, size, and geographical location that it is difficult to generalize about design. The architecture of the store's exterior creates an initial impression. For example, if a retailer chooses to remodel an older Victorian home, the customer will get a different impression from that of a store in the mall. The reminder of the 1990s will likely see design continue to be less concerned with aesthetics and more concerned with establishing an identity and marketing a store image. Key issues like the 1990 Americans with Disabilities act and state/local ordinances will continue to affect retail design as our population ages and becomes more diverse. Because of continued pressure on costs, newer designs reflect a closer attention to all details including store size. The drive to reduce inventory levels has forced a move to smaller stores, because a large store with less merchandise looks as though it is going out of business. The stores showing an increase in store size are those attempting to diversify and broaden merchandise lines. Higher rents, higher building costs, and the move localized stores because of the customer's desire for

convenience hurt larger, stand alone and regional mall stores. Let's look at the planning process.

General Requirements in store design

The first step of store design is the development of a comprehensive plan for the overall requirements of the store. On the basis of market potential (the sales estimate and dollars received per square foot of selling area), plans can be made to meet the need for storage and selling space. The plan must specify the ways to achieve the best traffic circulation possible throughout the store and the types and sizes of fixtures necessary to display the merchandise in an appealing manner. A careful study of these factors helps make stores attractive, conducive to shopping, and as operationally efficient as possible.

Comprehensive planning requires developing a customer –bases holistic focus for the design and layout of the store and for the desired store image. Only after this customer focus is defined should a comprehensive plan be developed for both the exterior and interior of the store that matches the desired store image.

1. Customer Focus

The focus of a store design should always be the customer. If the store design and layout are appealing the customer will from an image that is also appealing. It is easy to get into the technical aspects of store design and forget that the retailer's reason for existence is the customer. The design should be focused on forming and maintaining an image, while at the same time making the layout as accessible as possible for shoppers. Research should determine the needs, habits, and buying potential of the shoppers in the area and the need for store service and overall general customer comfort. Management must then determine the overall image that would best differentiate the store and attract the target market.

2. Store Image

A comprehensive plan would include a process for community obtaining customer feedback regarding improvements and for continuously updating the design to reflect changing customer needs wants. A store design serves two, often opposing, functions. First, and foremost, the design serves the functional purposes of protecting, enclosing, and displaying merchandise, while at the same time serving as a central location where customers can find the merchandise that they seek during convenient times. The second purpose relates to the symbolic needs of the customer. This includes the social aspects of shopping or owning a particular good from a particular store. The symbolic aspects of the store are anything that contributes to the overall store image. This may include environmental aspects, such as store atmosphere, or physical aspects, such as brand name products.

When customers enter a store, they want the displays and departments to tell them what the store is all about. The image the store is attempting to project

should be immediately obvious to potential customers. If the store wants price as the predominant image, departments emphasizing this aspect should be placed near the entrance. Managers should give the best space to the departments that say to the customer, This is what I am .

3. Holistic Approach

A store's design should match the store's character. This means that consideration should be given to the type of store image the merchant hopes to project. It includes exterior design and interior arrangements for selling and non selling activities. In addition, the design should match with that of other stores around it; it should also enhance the salability of the merchandise within the store and be in good taste. The store design should have a single theme or image throughout. Attempts to create several images often greater competition. This is because the retailer is no longer competing against stores within a single image category, but instead with stores in several categories.

4. Technology and Planning

Store designs are becoming more complex as new formats evolve. For this and efficiency reasons, it is becoming more common to rely on technology to assist in developing a store layout design. Computer-aided design (CAD) helps plan stores that more space-efficient. Planning can be done quickly and changes are easy to make. New construction design for a 200,00-squre-design software and hardware.

In the store itself, new combinations of interactive and multimedia technologies will change the way retailers design for direct customer contact and information assistance. For example, a self-service concept store may be developed where kiosks replace sales associates, providing product information and updates on availability of merchandise.

Retailers will likewise be exploring creative linkages between participation in electronic home shopping channels and in-store selling. Through the use of interactive technologies, consumers will be able to view merchandise choices at home, make product selections, and conclude the purchase transaction. They will be able to choose whether to wait and receive their purchases through transportation carriers or to proceed directly to the retailer's store or depot where the merchandise will be ready for pickup.

EXTERIOR DESIGN

The exterior design must protect the interior from the elements. Just as important, it also serves to convey information to potential customers. The exterior is first part of the store that potential customers see. They will determine from the outside whether or not they wish to enter and shop. It is critical that the outside of the store gain the attention of customers and entice them to enter. If the outside does not reflect an image appropriate to customers, they will not enter.

1. New Building versus Existing Facility

The decision to build a new facility or seek existing space is a critical element in exterior design planning. Each option has its advantages. Building allows the retailer to design all aspects of the exterior and interior. However, this option may be limited by location availability, time, or cost. Buying, renting, or leasing existing space has the advantage of being much quicker, may offer the advantage of a superior location and may be less expensive. However, a retailer is often limited in what can be done with regard to design issues. It is often the case where major renovations of existing space are as expensive as building from the ground up.

2. Restrictions

Recognizing the importance of the exterior, retailers have become very competitive in their designs. Unfortunately, this has often led to many areas looking like a war zone of competing colors, signs, shapes, and sounds. Both property owners and governments alike have taken steps to ensure that consumers are not assaulted by on overwhelming amount of stimuli.

(a) Lease requirements. Many property owners require retailers that lease their space to adhere to certain rules regarding store design. These rules serve two purposes. First, they assure the owner that property will be maintained good condition; and second, they ensure that the surrounding property does not lose value. For example, most malls require that signs be certain sizes and often limit the use of intense light.

(b) Building codes. Most cities have building codes for businesses; often many are directed at retailers. These serve several purposes. First, they protect the public. Fire codes and safety regulations are examples. Some codes include sign ordinances that try to create some kind of visual harmony. Second, they ensure equal access to shopping for those with disabilities; and third, they reflect the community's attitude with regard to appearance. For example, many town recognize the need of retailers to promote their business through the use of signs. However, for aesthetic purposes, they have limited or abolished signs in particular areas.

(c) Theme areas. Theme areas are those in which buildings must meet structural requirements that fit a certain theme. Many downtown areas are implementing very strict building codes that allow businesses to stay only if they fit with the atmosphere the area is trying to create. For example, the building codes in downtown Santa Fe require the exterior of the buildings to be adobe, among many structural requirements. This adds to the enjoyment of shopping and increases tourism.

3. Colour and materials

The exterior colour texture of a store give a lasting first impression to the consumer. Often, this will be the first and sometimes the only thing a customer sees of a store.

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It is important that the exterior look and Feel right to the shopper. The colours and material should express the image of the store.

Today's retailers are increasingly using textured building materials (brick, rough-sawn wood, and so on) at the store entrance to give a pleasant feeling to the façade. Steel buildings tend to create an impression of strength, whereas glass tends to create an altogether different impression, usually of a more modern store. Concrete or bock can contribute to the overall image of low cost or value. Brick may create a more upscale feeling.

4. Signs

Effective use of signs identifies the nature of the business, build a corporate identity, communicates an image, ties the company to its advertising through the use of a logo, and attracts to the store.

The most common signage is in plastic based materials despite the relatively high cost. Companies find that effective signs have individual letters that are coated in tough plastics and illuminated from within by neon tubes. This type of sign has advantages because it uses 15 to 20 percent less energy than other lighted signs and has an extremely long life. Stores desiring a very contemporary look may use exposed tubes; small strip shopping centers may use hand crafted wooden signs to maintain a low profile. Backlight signs offer a slightly more expensive possibility. Instead of the light splashing out of the front of the letter, it washes the wall with a silhouette. Mall tenants may be limited in the type and size of their sign management rules. Signs from materials such as wood or metal that have direct lighting can be used to create different images from luxury to country. However, plastic technology today allows the creation of nearby and look.

(a) Exterior walls and signs.

Many retailers use the exterior wall space to promote their store. Painting the name and logo of a business on the exterior is often less expensive than having a custom-made sign. Examples of this vary from a simple, elegant script indicating the name of the store to more exotic art that includes not only the name but also pictures. It artwork is used on the exterior of the building, it must conform to the principles of design, appeal to the customer base, and be integrated with the rest of the architecture.

5. Windows

The main purpose of windows is to attract attention and create an image to potential customers standing outside. Humor, theatrical flair, color, motion, or sound playing outside the windows work well to increase the effectiveness of the display. One of the biggest advantages of display windows is the ability to dramatically affect the exterior of the store. Most of the exterior requires major renovations to change. A retailer can take advantage of its window space to reflect changes in the store's offerings on a seasonal or monthly basis.

The window displays project the image of the store. While one story may be trying to say Quality in its windows by showing specific brands or fashions, other stores may use window displays to project a low price or value image. Regardless of whether it is a children's store, a sporting goods store, or a home furnishings store, the window display is often one of the first efforts to communicate with customers and invite them.

Window design is a function of the physical design of the store, and not something specifically requested by the retail manager or merchandising designer.

The open back, as opposed to the closed back, is a window through which the interior of the store itself becomes the display case. When open-back windows are used, the store does not have valuable selling space tied up in windows, management need not concern itself with planning window displays, and the problems of keeping windows clean and timely are usually avoided. However, the open-back window can cause unexpected display problems and exaggerate old ones. For example, the most significant concerns are reflection, sun glare, sun control, artificial lighting for both day and night, and the necessity for a general organisation of merchandise within a completely exposed store.

a) Awnings.

The use of awnings is a subset of the window and exterior design issue and often poses a particular problem for retailers. Most awnings are made of fabric and are of the old scissors or outrigger style. In recent years, fabric awnings that can be fastened into a recessed box at the end of the building have been developed. Other ways of awnings are structural part of the building.

Awnings come in many assorted sizes, colours, and styles. Merchants can take advantage of an awning to attract attention by using it as promotional space. Many companies now sell custom awnings that are designed to fit with the store's image.

6. The Store entrance

One of the first and most striking impressions customers get of a store is the one they receive as they go through the front door. An entrance should be more than a device to keep people out of the store, to encourage them to come in, or to protect against the elements. An entrance should have character, and it should say to prospective customer, – lease come through the door where you will be treated with courtesy and friendliness and served to the best of our ability. The entrance might be graceful and elegant or dull and functional; in any case, it should be compatible with the store design and provide an easy way to enter.

7. Store Name

Although not strictly related to external design, the choice of a store name does have an effect on the overall store image. The favourable or unfavourable image generated by the use of a name can enhance or negate the style set by store design.

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At first glance, choosing a name for the business may seem to be a rather easy task. Unfortunately, this is not the case. The retailer who thought of the name

Equ-ulus for a small gift shop certainly made a mistake. This name is not pronounceable, and it has little meaning for the majority of the customers to whom the store is appealing. Often it is desirable that the name sound not only attractive but prestigious. Certainly it must fit the type of store. For example, Budget weddings was chosen as the name of store that provided package services for brides. It failed because brides-to-be did not like the mental picture of a truck with that store name pulling up to the church and the reception hall. They liked the low price but were embarrassed by the name. See Box 7.2 for some guidelines in this area.

8. Theft Prevention

Another area of concern with exterior design is employee and customer theft. The design must consider the flow of people in and out of the store and how they may be observed or pass through technology-based theft prevention. Exterior doors and docks for receiving goods or trash disposal should also be designed and arranged to minimize opportunities for unauthorized entrance and exit.

9. Multilevel Stores

Because of the need for increased parking space in relation to shopping area in suburban stores and shopping centers, the multiple-level store is especially appealing to retailers. Even super markets have experimented with this type of design. Properly carried out, a multilevel facility offers the merchant a means of both expanding the selling area separating areas from one another. It also gives an overall feeling is that of – pulling people though the store. Careful attention has to be paid to which merchandise is in high demand so that it can be placed on the upper levels. In the process of seeking it out customers will move through the store. Putting a restaurant on the top level, for example, helps this pulling process.

INTERIOR STORE DESIGN AND LAYOUT

The interior design of the store determines the way the merchandise is stored and offered for sale. The design should allow easy access to merchandise for customer. There are several layout patterns that enhance the customer's access to goods. The interior also projects an image to the shopper that should be consistent with that conveyed by the store's promotion, price, and merchandise and with the exterior design. The store interior must make the customer comfortable and encourage shopping.

The objective of layout management is to obtain the maximum benefits from the space available. There are issues that retail managers should consider when they make layout decision:

1) Value of space,
2) Space utilization and allocation,

3) customer traffic flow,
4) the types of goods,
5) complementary merchandise proximity,and
6) the desired store image.

Value of Space

The value of space, depending on the location within the store, is expressed in sales per square foot of floor space, and sales per cubic foot of cubic space. **Sales per square foot** is the typical measure for a store, department, or freestanding display. A display, for example, may generate sales of $1,500 per square foot, where as a retailer like Sam's will generate sales of $500 across entire store. **Sales per liner foot** is the common measure of shelf space for items like groceries, pet foods, and health and beauty aids. An emerging method of calculating space value on the shelf is **sales per square foot of exposure space.** This is calculated by a length times height measure of vertical space. Space has height value in addition to liner value. **Sales per cubic foot** is a relevant measure for freezer and refrigerator cases.

The first and perhaps the most significant element in planning a store layout is the fact that store space varies in value. Some parts of the store are visited by more people than other parts. There fore, it is easier to make sales along the routes travelled by customers. This means that the value of the space is higher along the more highly travelled routes.

Not surprisingly, the area closet to the entrance of the store is the most valuable. The space nearest the front ranks second value, and so on to the back of the store. By the same line of reasoning, store space is less valuable in parts of the store that are difficult to reach. One would also expect variations in sales profits on different floors of the same store. As height from the ground floor increases, the difficulty of attracting customers becomes greater. Consequently, space on the upper floors or in the basement has less value than space on the main floor.

2. Space Utilization and Allocation

The available space in the store is divided into selling and nonselling areas. The nonselling space includes administrative offices, storage, and customer amenities, such as rest rooms. These are all critical requirements for a store. The desire to minimize nonselling space has led to several innovative operating procedures. Among them is the restocking of inventory. Many retailers have begun using quick response (QR) inventory system, where inventory arrives from vendors or a distribution center as it needed on the selling floor. Many retailers lack the partnering relationships with vendors required for QR.

There are several different methods of determining the amount of space a department or product class should receive. Among the most popular is space allocation by historical sales, gross margin contribution, industry averages, or strategic objectives.

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Some departments command a higher gross margin and /higher ales volume per square foot than others. Because departments such as jewellery, candy, and toys can play their way in the high-value locations of the store, they can be placed in the more valuable areas. Some merchandise has better display potential than others and is capable of generating higher sales per square foot. A leather goods department, for example, lends itself to an interesting and dramatic display. Therefore, departments with such capabilities should receive choice locations.

a) Allocation by historical sales.

The amount space that a department or product is allocated is sometimes based on the proportional sales of the product. For example, if apparel traditionally accounts for half of the store sales, it would receive half of the space. A minor problem with this method is that it can lead to under or over allocation of space over time. For example, if space is allocated each year and a department has decreasing sales, the space of that department is decreased. This could lead to a greater decrease in sales, which in turn will lead to a continuing decrease in space. Another potential problem is the over allocation of space on high-priced items. A jewellery department may have very high sales compared to shoes; however, jewellery requires less space because of its physical size. Competition may mean that some volume selling seasonal goods have much lower margins. This can lead to a great deal of space given too less profitable item.

b) Allocation by gross margin.

One way around the problem of allocating space by sales is to allocate it by gross margin. You remember that gross margin is sales less cost of goods sold. The same method as sales is used except that space allocation is based on the proportion of margin. For example, assume an electronics department has 10 percent of the sales but contributes only 8 percent of the total gross margin for the store. The department would receive only 8 percent of the space. On the basis of financial criteria, these programs recommend how much space each category of products should have and a specific product mix that will enable the retailer to maximize profits.

c) Allocation by industry averages.

Stores sometimes allocate space based on competitive pressures. They allocate the same proportion of space to a particular item as the competition or a similar store. Trade associations provide these kinds of data. This allows the retailer not to appear weak in a particular department. However, it also creates a me too atmosphere that may not differentiate the store from competitors.

d) Allocation by strategic objective.

Often a store will wish to build up sales in a particular product line. The manager will allocate the product more space that is justified by its previous sales. For instance, if shoes are not selling well but they are important to the image of the

retailer, a manager may give more space to the shoe department so that more varieties in types and styles and a greater assortment of colours and sizes are available for sale. Store managers may also use this method for short term promotion to build up sales of new product line. Thus, this is some times referred to as the build up method.

3. Storage of Stock

There are three accepted ways to handle storage in designing a retail store. The first way is to use **direct selling storage** – either exposed in show cases, counters, and drawers, or concealed behind cabinet doors. The second way to provide for storage is through **stockrooms** directly behind the selling area and in the perimeters. The third way is through a **central storage** location. In general, central storage is best located next to receiving and marking areas and as close as possible to selling areas. The trend is to reduce inventory levels by more frequent delivery and better forecasting of sales. It has become easier to display a greater percentage of the store's stock, leaving as little in concealed areas as possible.

Some store formats, like Service Merchandise, do not sell the stock on display. The goods are stored on floors above the selling area and then sent to a receiving area for customer pickup. Furniture, carpet, and appliance stores of ten stock merchandise off-premises in less expensive warehouse space because delivery to the home is required. There is no reason for valuable selling space to be devoted to duplicate items on the selling floor.

Exposed merchandise has great appeal. Recently, there has been a movement toward **open storage,** displaying all the inventory on hand and eliminating dead space. The trend toward self-service selection has made it practical to display most of the stock. Furthermore, stocking and stock maintenance time is reduced. So storage area is becoming more and more important in the recent days.

4. Customer Traffic flow

Merchants use three basic types of layout patterns to control traffic flow in a store. The first type is known as the **grid pattern.** This arrangement his main, secondary, and tertiary aisles. The layout often maximizes the amount of selling space. It has an advantage in lower costs because of the possibility of standardizing construction and fixture requirements.

The second major type of layout design is the **free flow pattern.** The free flow arrangement provides for flexibility in a layout. It reduces to a minimum the structural elements that from the fixed shell of building, such as columns and fixed partitions. Counters are arranged to give maximum visual interest and customer attention to each merchandise department. Counters can be positioned so that their angles will literally capture customer in a department.

The third type, the **"shop" concept** or **boutique pattern,** is a natural extension of the free flow layout arrangements. Shops must be presented to the public so that they stand out from other departments and become small, intimate

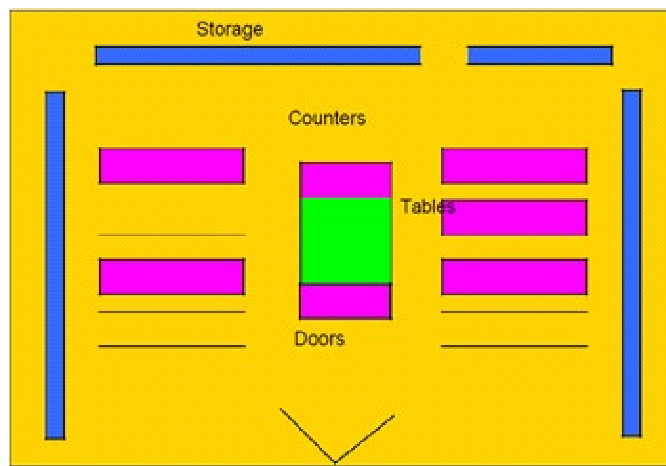
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specialty stores within themselves. The free flow layout patterns make this easy to do.

Stores should be laid out so that customers can get to various parts conveniently and with little effort. Some aisles are made larger and are designed to accommodate a higher traffic count than others. In general, aisles should be wide if the merchandise adjoining the aisle is the type that customers like to look at for a long time before purchasing; if there tends to be a large concentration of customers, such as at entrances and escalators and before promotional merchandise displays; or if the retailer is attempting to control traffic to maximize customer exposure to various merchandise departments.

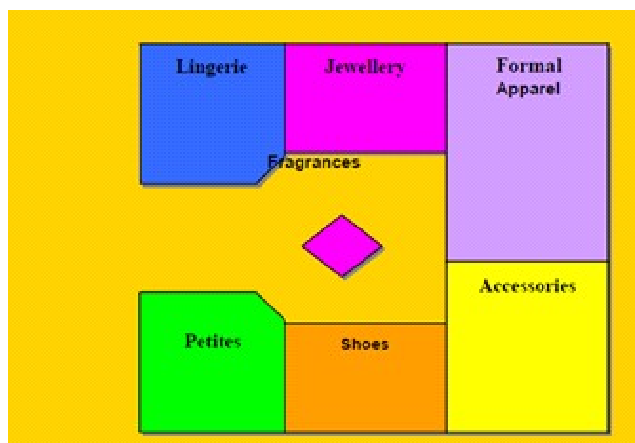
Grid pattern layout

The diagram below shows a grid pattern of layout



Boutique layout

The following diagram shows the boutique layout



5. Types of Goods

Merchandise can be broken up into four major categories : impulse goods, convenience goods, shopping goods, and speciality goods. **Impulse goods** are goods customers buy as unplanned purchases. An example might be candy sold at the checkout counter, corkscrew in the wine section or videotape in the electronic section.

Convenience goods

They are those that consumer put a minimum amount of thought into, usually purchasing a known brand or whatever is available. Examples are newspapers and batteries.

Shopping goods

They are those for which a customer is willing to search and compare. There may or may not be a brand preference. If a customer is willing to search and compare. There may or may not be a brand preference. If customer is looking for a specific brand, such as a Sony Trinitron TV, the shopping may be for the best price or service. A customer will likely make a trip to different stores seeking just the right goods.

Speciality goods

They are those for which customers have a preconceived need and for which they make a specific effort to come to the store to purchase. Consumers usually will not accept a substitute for a speciality good and will sometimes go to extraordinary, effort to purchase such an item.

Impulse and convenience goods benefit by being located in high traffic areas where customers ,as they pass by the displays, are likely to pick up an item for purchase. In many stores the checkout counter will be crowded with impulse goods such as candies, batteries, and miscellaneous odds and ends. Shopping goods on the other hand, because of the preconceived need, may be situated in more remote areas of the store. In most of the grocery stores, the meat is located at the back. This encourages the customers to pass through other aisles and increases the possibility of a higher number of purchases. Speciality goods are unique in that they can create customer traffic. Often a store selling speciality goods can locate in a less expensive site.

The type of the merchandise is the important consideration in a store layout. Think about how all four types of goods might influence a lay out in a discount drug store. For a particular customer a prescription could be a speciality good, and the customer would travel through a maze to get to the pharmacy. While going to the pharmacy a lot of convenience goods such as health and beauty aids may be picked for purchase. While in the store the customer could seek out the area where a shopping good like a home vaporizer was located and do some brand

and price comparisons for the future purchase. In the check out area an un planned purchase of film could be made. The key to using the type of good concept for layout is to understand how the store's target market shops for the goods that are going to be offered

a) Complementary merchandise placement.

The layout must also take into consideration the nature of complementary merchandise that is interrelated: A sale of an item prompts the sale of another item. For example, the sale of a shirt could logically lead to the sale of a ties, which in turn could lead to the sale of a tiepin. Because of these additional sales possibilities, it is appropriate to plan the interior design so that related merchandise is in close proximity.

b) Seasonal departments.

Some departments need considerable space during particular times of the year. Seasonal departments such as toys, lawn and garden, and greeting cards are examples. Because these departments must expand and contract during certain times of the year, provision must be made to accommodate these seasonal changes. To accomplish this, departments with offsetting seasonal peaks in sales should be placed next to one another or in place of one another.

INTERIOR DESIGN ELEMENTS

1) Fixtures

A major consideration in developing an appropriate store design involves the use of fixtures. They are used to display merchandise, to help sell it, to guard it, and to provide a storage space for it. They should be attractive and focus customer's attention and interest on the merchandise. Figure 7.8 shows a design developed by

The Store décor Company for a new Pets Mart store. Notice how a traditional Bfixture, a cage for holding animals, has been integrated into a total deign that directs the customer to the store area and displays the merchandise for sale.

One way to bring the cost of fixtures down is standardization; customisation is expensive, and construction budgets today allow this luxury only where speciality departments can justify the cost. Some stores are trying to keep a lid on fixture costs with walls that don‘t reach the ceiling but instead begin two feet down. Besides being cheaper and faster to put up, they don‘t affect sprinklers, lighting, heating ventilation and air conditioning (HVAC),and other ceiling ducts.

Most stores are moving toward smaller and less dense fixtures than what they previously used, which is another way to control costs. But even more significantly, the trend reflects the reduction in many stores‘ inventory levels. Glass

cubes that once consisted of sixteen inch and eighteen-inch high bins may now be housed in twelve-inch bins. This way, although there are fewer items in each unit, it still looks full. Another trend is a renewed demand for wood and glass, which in recent years were demand for wood and glass, which in recent years were over shadowed by the more affordable clear plastic.

2. Displays

Display an important role in a retail store. An attractive and informative display can help sell gods. Poorly designed displays can ruin the store's atmosphere and centre an uncomfortable setting. Since displays often take up premium space with in the store, they carry a heavy burden of productivity in terms of creating sales.

There are several principals of rules of displays that help ensure their effectiveness :

a) They should achieve balance,
b) provide a dominant point,
c) create eye movement
d) low gradation,
c) just merchandise to proper height,
d) group the merchandise in the display,
e) generate sales appeal ,
f) keep merchandise in proper order, and
g) display names of products and store name.
h) Displays should also be simple and not chaotic or congested.

a) Balance

In building a display, it is important to make sure that it appears balanced to the viewer. This is achieved by arranging products in a symmetric manner. Displays may have formal or informal balance. **Formal balance** is achieved by placing similar items equal distance from the center. **Informal balance** is achieved by placing different sized goods or objects away from the center based on their relative size.

b) Dominance

All displays should have a central point that will attract the viewer's eye. The point may be achieved by using prominent piece of merchandise, such as a diamond pendant, using dramatic colours, such as a bright scarf, or using streamers arranged toward the center of the display.

c) Eye movement

Displays should direct the eyes away from the point of dominance in a systematic fashion, instead of encouraging them to jump from one end to the other. If the

viewer's eyes move indiscriminately around the display, the shopper will miss some of the merchandise and will not get the full message intended.

d) Gradation.

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The gradation is the sequence in which items are arranged. For example, small items are usually placed at the front of the display, medium items father back, and large items at the rear. The creates harmony and an appealing illusion.

e) Height of merchandise.

Merchandise that has the greatest effect should be placed at the eye level of the customer. Because viewers tend to look straight ahead, merchandise placed at eyes level is most likely to be seen.

f) Grouping merchandise.

Too many retailers place one item after another in a long row. Shoe stores, jewellery stores, and mass merchandisers tend to do this. Stores with large amounts of one item or with one line of goods are likely to build longer displays. Instead of creating long displays where the customer has problems picking out merchandise, retailers should group items so that the customer's eyes cannot travel from group to group but stop and focus on particular products.

g) Sales appeal.

Displays should always show the best merchandise that the retailer has to offer. As discussed above, displays take up some of the most valuable space in the store. Using show-moving items for display is a waste. One way to generate sales appeal is to choose the most important feature of the merchandise being displayed and focus on it. Another way is create a theme that already exists within the customer's mind, such as Valentine's Day, Christmas, or back to school. Customers relate best when they can grasp the total picture.

h) Keeping it simple.

Since displays take up a great deal valuable space, there is a tendency to get as much into them as possible. While the idea of more is better may be true for chocolate, it is not true for displays. Too many items in a display district and confuse the consumer, and they tend to create an atmosphere of chaos or congestion.

3) Colour

The psychological effect of colour continues to be important to retailers. Colour is also important in ware house type stores because of the vast open area of the interior. Bold colours are frequently used to highlight merchandise sections or departments and to reduce attention to what is typically an open –girder ceiling.

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Clearly, intelligent use of colour is important in store design. Since people are drawn to warm colours, yellow and red can help draw customers into the store through the entrance. Cool colours such as blues and greens tend to calm people and are useful in areas where customers need time to deliberate over the purchase decision.

4) Lighting

Proper lighting is one of the most important considerations in retail design. At one point in time the function of lighting was to provide customers with a means of finding their way through the store. Today, lighting has become a display medium. It is an integral part of the store's interior and exterior design. Lighting should match the mood retailer is attempting to create with the rest of the store décor and should complement, rather than detract from, the merchandise.

General illumination is needed throughout the store. However, most stores need additional localized lighting to highlight special displays and showcases, help bring out colours, and relieve the monotony of even, overall light. Too much or too little lighting, or even the wrong type of lighting, can create false impressions about the merchandise on display. Incandescent lighting used alone, for example, accents yellow and red. Fluorescent lights frequently build up blues and purple. Therefore, retailers must use a lighting combination that gives a correct impression of the merchandise while de-emphasising the source of the light itself.

5) Ceilings

Ceilings represent a potentially important element interior design. In older stores, ceilings of twelve to sixteen feet are still common, but most department store ceilings are now in the nine – to- ten foot range. Remember, the higher the ceiling, the more space to heat and cool at increasing energy rates. Ceiling heights are becoming much less standardized within stores. Designers are making use of varied ceiling drops to create distinct for different departments within a store.

6) Flooring

Retailers are taking a sophisticated – return investment approach to flooring decisions. Firms are willing to pay higher-up-front installation costs for more expensive materials if they see a return in greater durability and reduced maintenance expenses.

Flooring choices are important because the coverings can be used to separate departments, muffle noise in high – traffic areas, and strengthen the store image. The range of choices for floor coverings is endless: Carpeting, wood, terrazzo, quarry tile, and vinyl composition all have applications in different settings.

7) Shelving

The material used for shelving as well as its design must be compatible with the merchandising strategy and the over all image desired. Stainless steel shelving

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creates an entirely different effect than the painted wood cubes in the Country Seat or the typical metal shaving seen in a general merchandise store, Glass shelving, framed in the woods, creates an element of elegance difficult to achieve otherwise. General shelving considerations and merchandise display are discussed in the next selection.

8) Plano grams and Shelf Layout Design

One of the key tools of modern shelf and layout planning is the **Plano gram.** This is a graphical representation that visually shows the space to be allocated by describing where every stock keeping unit(SKU) within a space is physically located. As you will see in Chapter 10, every product has its own SKU. The Plano gram produces a map for the length, height, and depth of shelves with the number and location of the SKU.

9) Other considerations

There are other considerations that can round out the image and atmosphere created by the interior design elements. For example, the type and sound level of music can be focused on a given market segment. Scents can be used to help identify with a market group or create a feeling about being in the store. The level of maintenance and cleanliness also sets a tone.

Summary

Retailers want to locate their stores in the best place possible. The best place possible will vary from retailer to retailer depending on the industry type, type of product,competition,and other market factors. Basically a retail store has to located where the market opportunities are at optimal levels.

There are basic guidelines that most retailers examine before choosing a new location. First, the retailer must select a country or region and then define the boundaries of the trade area and evaluate its population characteristics against the retailers target market. The buying power of the area must be considered along with its market and sales potential.

The size, location, and type of competition must also be taken into account. The local legal and political environment must be examined along with the leasing costs and occupancy rates. The actual physical features of the location – such as available space, traffic and access to the site, and surrounding buildings – play a role in the selection process.

Retailers possess many tools to help in the site selection decision. Reilly’s law and Huff’s model can aid in defining the trade area. Market segmentation and demographic segmentation provides clues to population characteristics. The buying power index and effective buying income suggest strength of the economic base while the index of retail saturation offers a benchmark for market comparison.

Changes in consumer lifestyle will require new strategies for selecting retailing locations, such as the increasing use of convenience oriented sites, the integration of food and non-food retailing, and the placement of retail merchandising in amusement parks.

There a numerous kind of retail stores to choose from as well. Most potential sites fall in to one of these categories: business districts, shopping canters, and freestanding locations. There are specific advantages and disadvantages for each type of location. The bottom line in retail site selection should be to choose a location that will fit both today's and tomorrow's needs.

The layout and design of a retail store communicate a significant amount of information about the retailer to the consumer. The architectural character of the store, building a new location, renovating existing facilities, exterior design, interior design the modern self layout and the image of the store are the key issues in designing a layout for a store.

Key terms and concepts

Buying power index (BPI)

Effective buying income (EBI)

Cross- shopping

Gross leasable area (GLA)

Index of retail saturation (IRS)

Huff's model

Reilly's law

Out shopping

Boutique pattern

Free flow pattern

Grid pattern

Plano gram

Convenience goods

Shopping goods

Speciality goods.

Questions

1. Describe what you believe to be significant trends in selecting retail locations.
2. What do you mean by cross- shopping?
3. What do you mean by out shopping?
4. Write brief notes of country and regional analysis.

5. Explain the importance of drive-in locations.
6. Explain the various types of shopping centers.
7. Explain the huff's model.
8. Explain the Reilly's law.
9. Write short notes on the following
   a. Geodemographics
   b. Retail market potential
   c. Retail sales potential
10. Explain the various methods of store design.
11. Describe how you would design the exterior of a store.
12. Explain the various influences on interior design and layout.
13. Explain the various methods of allocation of space.
14. Explain the procedure for designing ways to handle storage in retail store.
15. Write short notes on the following
    a. Grid pattern
    b. shop concept
    c. free flow pattern.

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UNIT - III MERCHANDISE MANAGEMENT

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Indian retailing is under going a process of evolution and is poised to undergo dramatic transformation. The retail sector employs over 8 percent of national work force. But it characterized by a high degree of fragmentation with over 5 million outlets. 96 per cent of whom are very small with an area of less than 50 m^2 . The retail universe more than doubled between 1978 and 1996 the number of outlets per 1000 people at an all India level, increased from 3.7 in 1978 to 5.6 in 1996 . For the urban sector alone , The shop density increased from 4 per 1000 people in 1978 to 7.6 per 1000 people in 1996. Because of their small size, the Indian retailer have very little bargaining power with manufacturer and perform only a few of flows in marketing channels unlike in case of retailer in developed country.

The corner grocer or kirana store is a key element in retail in India due to the house wife's unwillingness to go long distance for purchasing daily needs. An empirical study was carried out by sinha et al(2002) to identify factors that influenced consumer's choice of a store. Although convenience and merchandise were the two most important reasons for choosing a store, the choice criteria varied across product categories. Convenience was indicated by consumer as the most important reason in the choice of groceries and fruit outlet, chemists and life style item while merchandise was indicated as most of important in durables, books and apparel.

The success of any retail operation is largely based on the retailer's ability to provide the right goods to the consumer, at the right place, at the right time and at the right price. The entire process of creating or procuring a product or serve needed by the consumer and ensuring that it reaches the place where a consumer can buy it, is integral to the existence of any retail organization.

Merchandise management can be termed as the analysis, planning, acquisition, handling and control of the merchandise investments of a retail operation.

The process of merchandise management includes the developing of strategies to ensure that the right product is bought at the right price and I available at the right place, at the right time, in the right amount, in order to satisfy the needs of the target customer. No one in retail can completely avoid any contact with merchandising activities. Merchandising is the day-to-day business of all retailers. As inventory is sold, new stock needs to be purchased, displayed and sold. Hence, merchandising is often said to be at the core of retail management.

Merchandising traces its growth to the rise of organized retail in the world. Initially, as the retailers operated only one or two stores, the function of buying the merchandise, pricing it, etc., were much simpler. In many cases, the retailer did it himself. However, as retailers started adding stores and categories, the workload

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on the buyers increased significantly. Often, buyers had little information or time and they ended up using approximations based on sales volumes, to allocate merchandise between stores. This sometimes, resulted in stores exchanging merchandise among them!

In order to overcome this limitation, the function of a planner came into being. The planner's job was to act as a link between the stores and the buyer. The de-linking of the function of planning and buying allowed better interaction with the stores. Planners were able to devote more time to collecting and studying store level data, the buyers on the other hand, were able to spend more time with the vendors.

FACTORS AFFECTING THE MERCHANDISING FUNCTION

Merchandising does not function in isolation. It is affected by various factors, like the organization structure, the size of the retail organization and the merchandise to be carried.

As in every retailing endeavor, the most fundamental activities are buying merchandise and re-selling it to its customers. The owner or the manager, who may be assisted by the sales person, may perform the buying function in the case of a single store. As the single store grows in terms of business, it may add departments. Functional departmentalization may occur and the number of persons involved in the buying process may increase.

In the case of a chain store, the buying function may be centralized or decentralized geographically, depending on the retail organization. Thus, the nature of the organizations is an important factor affecting the function of merchandising.

The merchandise to be carried by a retailer largely determines responsibilities of the merchandiser. The buying for basic merchandise is fairly different from the buying of fashion merchandise. Basic are those products or items, which their retailer will always keep in stock. This primarily because these products are always in demand and the sales variance is minimal from year to year. Example of basics would be times like white shirts in clothing or items or items like pulses, oil, etc. Fashion products on the other hand, are products, which may sell very well in one season or year and may not have any demand in the next season.

A merchandiser, who is handling fashion products, will need to spend more time in the market, looking for products, which will suit the needs of the store's consumers.

He will also need to be aware of the fashion forecasts and the trends in the international markets.

The organization structure that the retail organization adopts also affects the merchandising function. Some organizations may demarcate the role of the buyer and the role of a merchandiser as separate functions, which in a smaller organization, one person may carry out the all the duties.

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FUNCTIONS OF A MERCHANDISE MANAGER

The merchandise manager is responsible for particular lines of merchandise. For example, in department store, there may be separate merchandise managers for menswear, women's wear, children's wear, etc. They would be in charge of a group of buyers and their basic duties could be divided into four areas; planning, directing, coordinating and controlling.

1. Planning

Through the merchandise managers may not directly be involved in the actual purchase of the merchandise, they formulate the policies for the areas for which they are responsible. Forecasting the sales for the forthcoming budget period is required and this involves the estimating of the consumer demand and the impact of the changes occurring in the retail environment. The sales forecasts are then translated into budgets, to help the buyers work within the financial guidelines.

2. Organizing

It involves the establishment of an intentional structure of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it. The grouping of these activities , the assignment of such groups of activities , the delegation of authority to carry them out ,and provision for coordination of authority and informational relationship horizontally and vertically to be carried out by the merchandise manager.

3. Directing

Guiding and training buyers as and when the need arises, is also a function of the merchandise manager. Many a times, the buyers have to be guided to take additional markdowns for products, which may not be doing too well in the stores. Inspiring commitment and performance on the part of the buyers is necessary.

4. Controlling

Assessing not only the merchandise performance, but also the buyer's performance, is a part of the merchandise manager's job. Buying performance may be evaluated on the basis of the net sales, mark up percentage, the gross margin percentages and the stock turn. This is necessary to provide controls and maintain high performance results.

5. Co-ordinating

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Usually, merchandise managers supervise the work of more than one buyer, hence, they need to co-ordinate the buying effort in terms of how well it fits in with the store's image and with the other products being bought by the other buyers.

The structure of the merchandise department largely depends on the organization structure adopted by the retail organization. Retail snapshot 6/1 illustrates the function of buying and merchandising at one such retail organization in India – shopper's stop. This organization has defined the trading manager and the buyer as the persons who will look after the merchandising function.

Functions of Merchandisers

Inventory-level management

Achieving sales &profit margins

Plan merchandise

Availability management, as per range plan

Merchandising strategy & planning

Processing of purchase orders

Analysis of data & sales budgeting

Profitability Target & expense control

Vendor/supplier relations for both, in house products as well as for brands.

While good merchandise management does not guarantee success, bad merchandise management will almost certainly result in failure.

MERCHANDISE PLANNING

Retail businesses, like all other businesses, exist with the aim of making a profit. The function revolves around planning and control. Planning is of great importance, because it takes time to buy merchandise, have it delivered, record the delivery in the company's records and then, to send the merchandise to the right stores.

Analysis is the starting point of merchandising planning. The person who is to take the buying decisions for a retail organization, must be aware of the consumer needs and wants. An understanding of the consumer buying process is necessary. A part from this, a clear understanding is also necessary of what products are actually selling and where. Information on this can be obtained from sale records. An interaction with the sales staff is also needed, as they can offer valuable insights into conducted, magazine and trade publications and trade associations are other sources of information. The information thus gathered, needs to be analyzed. This analysis forms the basis of the sales forecast. The first stage in merchandise planning is developing the sales forecast.

Step I: Process of Planning Sales Forecast

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Forecasting involves predicting as to what consumers may do under a given set of conditions. A sales forecast may be made by the merchandiser, based on the targets given by the top management or may be handed down by the top management itself, depending on the retail organization. A sales forecast is the first step in determining the inventory needs of the product or category. Forecasts are typically developed to answer the following questions:

How much of each product will need to be purchased?

Should new products be added to the merchandise assortment?

What price should be charged for the product?

A sales forecast is usually made for a specific period of time, this may be weeks or a season or a year. A forecast may be a short term—i.e., up to one year, or a long term—i.e., for a period of more than a year. The person who is to make the forecast for the product group or category, needs to be aware of the changes in the tastes and attitudes of the consumers, the size of the target market and the changes in their spending patterns.

The process of developing sales forecast involves the following steps:

1. Identifying Past Sales

A review of the past sales records is necessary to establish if there is any pattern or trend in the sales figures. A look at the sales figures of the past year, for the same period, would give an indication of the sales in the current year, given that the conditions tare constant.

2. Reviewing the Changes in the Economic Conditions

It is necessary to take into account the changes happening at the economic front, as this has a direct link to the consumer spending patterns. Economic slowdowns, increase in unemployment levels, etc., all affect business.

3. Analyzing the changes in the sales potential

It is now necessary to relate the demographic changes in the market to that of the store and the products to be sold.

4. Finding the changes in the marketing strategies of the retail organization and the completion

While creating the sales forecast, it is necessary to take into consideration, the marketing strategy to be adopted by the organization and that of the competition. Is there a new line of merchandise to be introduced, a new store to eb opened or an existing store to be remodeled? All these factors need to be taken into consideration.

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5. Creating the Sales Forecast

After taking into consideration the above-mentioned points, and estimate of the projected increase in the sales, is arrived at. This is then applied to various products/ categories, to arrive at the projected sales figures.

A sales forecast is thus, an outline of what amount of sales need to be achieved, it tells us what amount of sales are targeted and what revenues are expected from those targets. However, it does not give there merchandiser any idea of the inventory levels that are required. This brings us to the second stage, which involves the planning of the quantities of merchandise that would be required to achieve the sales forecasted in Stage

Step II: Identifying the Requirements

Planning is essential to provide direction and to serve as a basis of control for any merchandise department. In order to be able to provide the right goods to the consumers, at the right place and time, one needs to plan a course of action. Planning in merchandising is at two levels.

1. The creation of the Merchandise Budget, and
2. The Assortment Plan.

There are two methods of developing a merchandise plan. They are top down planning and bottom up planning. In top down planning, the top management words on the sales plan and this is passed down to the merchandising team. On the other hand, in bottom up planning, individual department managers work on the estimated sales projections. These are then added up to arrive at the total sales figures.

After the sales forecasting exercise has been completed, inventory levels need to be planned. The merchandise budget is the first stage in the planning of merchandise. It is a financial plan, which gives an indication of how much to invest in product inventories, stated in monetary terms.

The merchandise budget usually comprises five parts:

1. The sales plan, i.e., how much of each product needs to be sold; this may be department wise, division wise or store wise.
2. The stock support plan, which tells us how much inventory or stock, is needed to achieve those sales.
3. The planned reduction, which may need to be made in case the product, does not sell.
4. The planned purchase levels, i.e., the quantity of each product that needs to be procured from the market.
5. The gross margins (the difference between sales and cost of goods sold,) the department, division or store contributes to the overall profitability of the company.

Methods of Inventory Planning

NOTES

In order to be able to proceed with merchandise planning, the method of inventory planning needs to be finalised. Any one of the four methods given below can be used for planning the inventory levels needed.

1. The Basic Stock Method
2. The percentage Variation Method
3. The week's Supply Method, and
4. The Stock/ Sales Ratio Method.

The Basic Stock Method

This method of inventory planning is used when the retailer believes that it is necessary to have a given level of inventory on hand, at all times. Basic stock is the minimum amount of inventory that needs to be maintained for a product, category or store, even during times of low sales.

It is calculated as under:

Basic Stock = Average stock for the season – Average monthly sales for the season, where,

$$\text{Average monthly sales for the season} = \frac{\text{Total planned sales for the season}}{\text{Number of months in the season}}$$

$$\text{Average Stock for the Season} = \frac{\text{Total Planned Sales for the season Estimated Inventory}}{\text{Turnover Rate for the Season}}$$

Beginning of Month (BOM) Stock = Planned Monthly Sales + Basic Stock

Illustration : Using the basic stock method, calculate BOM inventory for the month of January, given the following information:

Planned sales for the month of January	:	40,000
Average Monthly Sales	:	50,000
Average monthly inventory	:	60,000

Basic stock = 60,000-50,000 = 10,000

BOM stock = 40,000+10,000 = 50,000

The Percentage Variation Method

This method is normally used when the stock turnover rate is more than six times a year. The basic premise behind this method of inventory planning is that the inventory levels should reflect the actual sales. It is calculated as under:

BOM Stock = Avg Stock for season X ½ (1+ (Planned sales for the month / Average Monthly sales)]

Illustration: Using the Percentage Variation Method, calculate the BOM inventory for the month of January, given the following information.

Planned Sales for the month of January	:	40,000
Average monthly Sales	:	50,000
Average monthly inventory	:	60,000

BOM Stock = Avg Stock for season X ½ [1+(Planned Sales for the month / Average Monthly Sales)]

BOM Stock = 60,000 X ½ X(1+ 40,000/50,000)

= 60,000 X ½ X (1+1.2)

= 60,000 X 1.1 = 66,000

Week's Supply Method Retailers such as grocers, who plan; inventories on a weekly, and not on a monthly basis, and whose sales do not fluctuate substantially, largely follow the Week's Supply Method. It is calculated as under:

Number of Weeks to be Stocked = The Number in Weeks in the period/ stock turnover Rate for the period

Average Weekly Sales = Estimated Total Sales for the Period/The Number of Weeks in the Period

BOM Stock = Average Weekly Sales X Number of Weeks to be Stocked

Stock to Sales Ratio Method: This is very easy to use, but it requires the retailer to have a beginning of the month stock/sales ratio. It involves the maintaining of the inventory levels at a specific ratio to the sales. This ratio tells the retailer how much inventory is needed at the beginning of the month, to support the month's estimated sales.

Stock-Sales Ratio = Value of inventory/Actual Sales

Planned BOM Inventory = Stock Sales Ratio X Planned Sales.

Illustration : Using the Stock to sales Ratio Method, Calculate the BOM inventory for the month of January, given the following information. Stock to sales Ratio = 1.4

Planned Sales for the month of January : 50,000

Planned BOM inventory = 1.4 × 50,000

= 70,000

The Stock Turnover Rate An effective measure of the speed with which products or merchandise moves in and out of a retail store for a given period, is the Stock Turnover Rate. It is a measure of efficiency and is usually calculated for a period, of six months or a year. It is calculated using the following formula:

$$\frac{\text{Planned sales (for a period)}}{\text{Planned Average Inventory (for the period)}} = \text{Stock turnover}$$

The stock turnover rate is a measure of efficiently. Every department usually, ahs its own stock turnover rate, as different merchandise need different speeds of selling. Typically, for grocery products, the stock turnover rates needed would be much higher, as compared to those needed for products, the stock turn over rates needed would be much higher, as compared to those needed for products like apparel or toys., From the management's perspective, the stock turnover indicates the level of capital usage, i.e., turning money to inventory, inventory to money and then repeating the process again.

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Step III: Merchandise Control

The purpose of Open-to-buy is twofold. First, depending on the sales for the month and the reductions, the merchandise buying can be adjusted. Secondly, the planned relation

Between the stock and sales can be maintained. When used effectively. Open to buy

Ensures that the buyer:

1. Limits overbuying and under buying,
2. Prevents loss of sale due to unavailability of the required stock,
3. Maintains purchases within the budgeted limits, and
4. Reduces markdowns, which may arise due to excess buying.

When planning for any given month, the buyer will not be able to purchase the amount equal to the planned stocks for the month. This is because there may be some inventory already on hand or on order, but not yet delivered.

Calculating the Open-to-buy The open-to-buy amount available to a buyer, is

Calculated using the simple formula stated below:

Open-to-buy = Planned EOM Stock – Projected EOM Stock Open-to-buy is always calculated for the current and future periods. Continuing further with the same example that we took for calculating the Six Month Merchandise Budget, we would arrive at the Open-to-Buy for various months, in the following manner.

One makes an assumption here that we are now in the month of February, and hence, that additional data in the form of the actual sales and the reductions for the month of January, is now available to us. Thus, the merchandise budget would appear with new

NOTES

Figures incorporated as follows:

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
PROJECTED SALES	220000	198000	209000	220000	198000	22000	
ACTUAL SALES	200000						
MONTHLY RED	12650	12650	18975	31625	31625	18975	
ACTUAL RED	8500						
BOM STOCK	396000	297000	313500	396000	297000	440000	
ACTUAL BOM	350000						
EOM STOCK	297000	313500	396000	297000	440000	50000	
ACTUAL EOM	250000						
MONTHLY ADDNS TO STOCK	133650	227150	310475	152625	372625	298975	
ACTUAL ADDNS ON ORDER	100000 100000	200000 150000	150000				

Open- to- buy = Planned EOM Stock – Projected EOM Stock.

Using the data given above, we calculate the Open – to- Buy for the month of February as

Projected EOM stock = Actual BOM Stock + Actual Additions to Stock + Actual on order – planned Monthly Sale – Planned Reductions for the month

=250,000+200,000+150,000-198,000-12,650

=389,350

Now that the merchandiser has an idea as to the amount available to make the purchases, he needs to decide on the merchandise or the products that need to be bought. This process of deciding upon the products or merchandise to be bought and then arriving at the quantity of each product or category of merchandise to be bought is termed as Assortment Planning.

NOTES

Step IV: Assortment Planning

Assortment Planning involves a determination of the quantities of each product that will be purchased so as to fit into the overall merchandise plan. Details of color, Size, brand, materials, etc., have to be specified. The main purpose of creating an assortment plan is to create a balanced assortment of merchandise for the customer. Various factors affect the assortment planning process. The first among these factors is the type; of merchandise that is to be stocked in the retail store. Merchandise may be classified into basic or staple merchandise, fashion, convenience or specialty goods.

Fashion Merchandise: this type of merchandise has a high demand for a relatively short period of time. Buying the right quantities at the right time is of great importance for this category of products, as the demand for the product exists for a limited time. Excess buying may result in heavy markdowns at the end of the season or when the product goes out of style. Examples of such products include various cuts in jeans, which may be in style for a season, short lengths in kurtas, etc.,

Basic Merchandise these are products which consumers buy year in and year out. The store would usually require these products, to be in stock at all times. Example of products, which may be classified as staples are: men's white shirts, socks, handkerchiefs, stationery, etc,

Buying staple merchandise is relatively easier, it can be easily done by analyzing the past sales records. Seasonal staples are those products, which are in demand only at a particular time of the year, every year. For example, decorative divas sold during Diwali in India, or decorative ornaments for Christmas, umbrellas and raincoats/rainy shoes in the rainy season.

The retailer's policies with respect to the type of brands stocked and the level of exclusivity to be maintained in the store, also affect the merchandise buying decisions. Thus, after arriving at the amount of money available for investing in the inventory, a merchandiser would have to determine the variety of the merchandise.

Let us take the example of a merchandiser who is working towards the assortment plan for the menswear department for a large retail store. He would start by determining the product line, which is under consideration. A product line is a broad category of products having similar characteristics and uses. Thus, in menswear, product lines could be shirts, trousers, accessories, shoes, etc. He would then have to determine the breadth and depth to be offered under the said product line the breadth refers to the number of brands carried within each product classification. The depth on the other hand, refers to the number of choices offered to the customers within each brand or product classification the same is illustrated in Figure.

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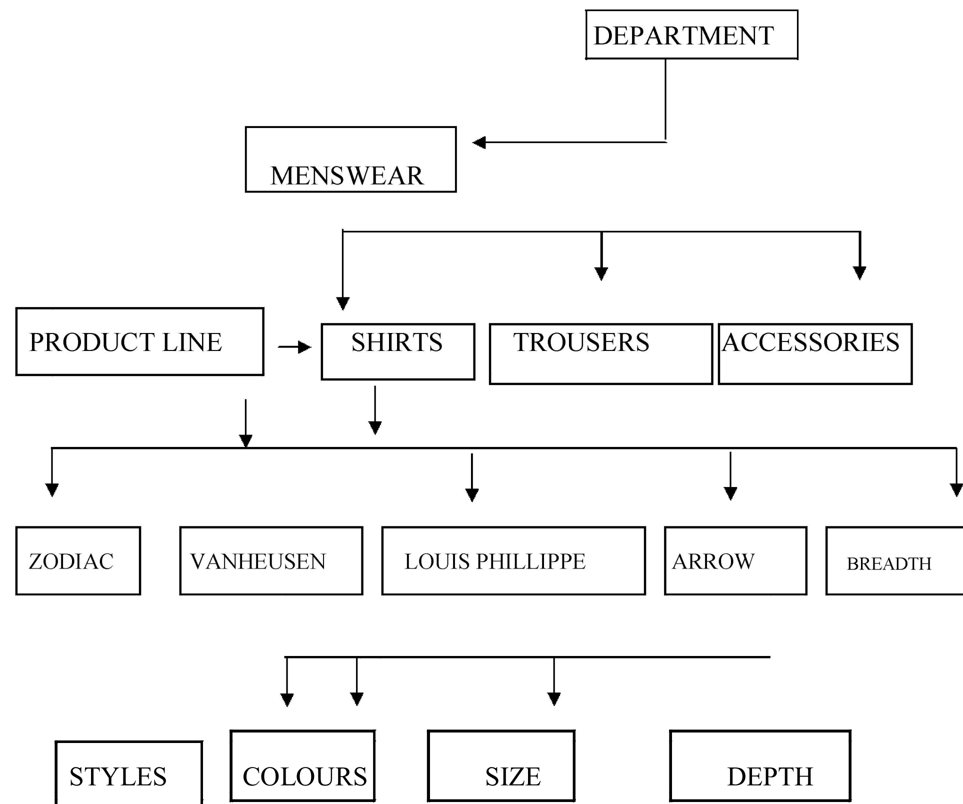


Fig. Product Line Classification

While a merchandiser always works towards creating an optimal merchandise mix, various factors would affect his/her decision. These would be the amount of money actually available for buying, the targets set by the management for merchandise turnover, the space actually available within the stores for stocking the merchandise and the market constraints. Working under these constraints, buyer works towards creating an optimal merchandise plan.

Assortment Plan After determining the money available for buying, a decision needs to be taken on what to buy and in what quantity to buy it. This results in the creation of a the Model Stock Plan. The model stock plan gives the precise items and quantities that need to be purchased for each merchandise line. To arrive at the model stock plan, they buyer needs to identify the attributes that the customer would consider while buying the product, then decide on the lees under each attribute and finally, allocate the total money available, or the units, to the respective item categories.

The following example illustrate the steps involved in preparing a Model Stock Plan:

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A retailer has allocated Rs.10 lakhs to the buying of shirts. Assuming that the purchase price of each shirt is Rs.100, he will be able to stock 10,000 shirts in the store.

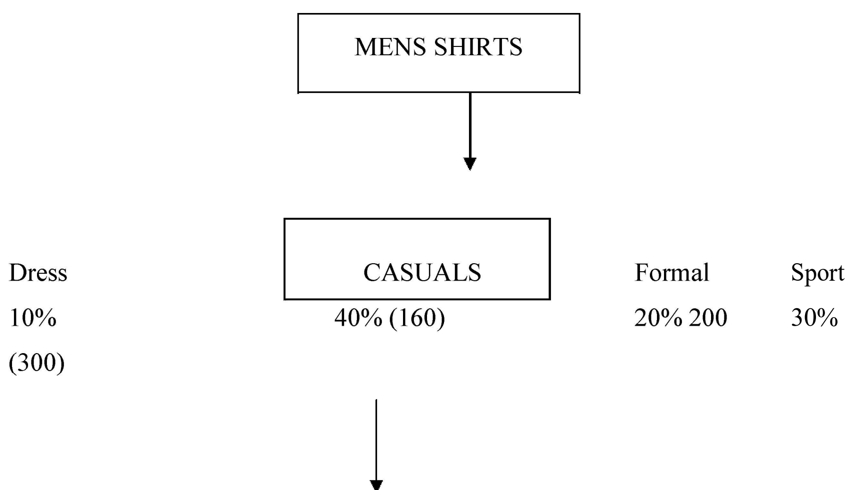
Step 1: The first thing that the retailer needs to do is to identify which factors affect the customer's buying decision. Let us assume that he identifies them as type of shirt, color, size, style, fabric and sleeve length.

Step 2: Identify the number of levels under each attribute. In the given illustration, let ;us assume that he identifies the following levels.

1. Type of shirt (Dress, Casual Formal, Sport)
2. Size (Small, Medium, Large, Extra Large)
3. Sleeve Length (Full Sleeves, Short Sleeves)
4. Collar Type (Saville, Button Down)
5. Color (White, Blue, Cream, Grey)
6. Fabric (Cotton, Cotton Blend)

In this illustration, the basic attribute that the retailer identifies is the shirr type that the customer would want to buy. Dress shirts account for 10 per cent of the sales, casual T-shirts 40 percent, formal 20 percent and sports 10 percent. The retailer first calculates the casual shirts that he needs to stock. He is aware that these shirts sell in the sizes—Small Medium, Large and Extra Large in the percentage of 25:40:25:10 respectively. Full Sleeves account for 30 Percent of the medium size sales and the balance is a half sleeve. Button down is 40 percent of half sleeve sales and the balance is Saville. The fast selling color are white—10 percent of sales, blue 30 percent cream 20 percent Grey 10 percent, cotton Blends are 75 percent of the sales and the balance is cotton.

Step 3: The third step is to allocate the total units to the respective item categories. Thus, the units that are recommended for each item are in direct proportion to the estimated demand patterns, as illustrated in fig .



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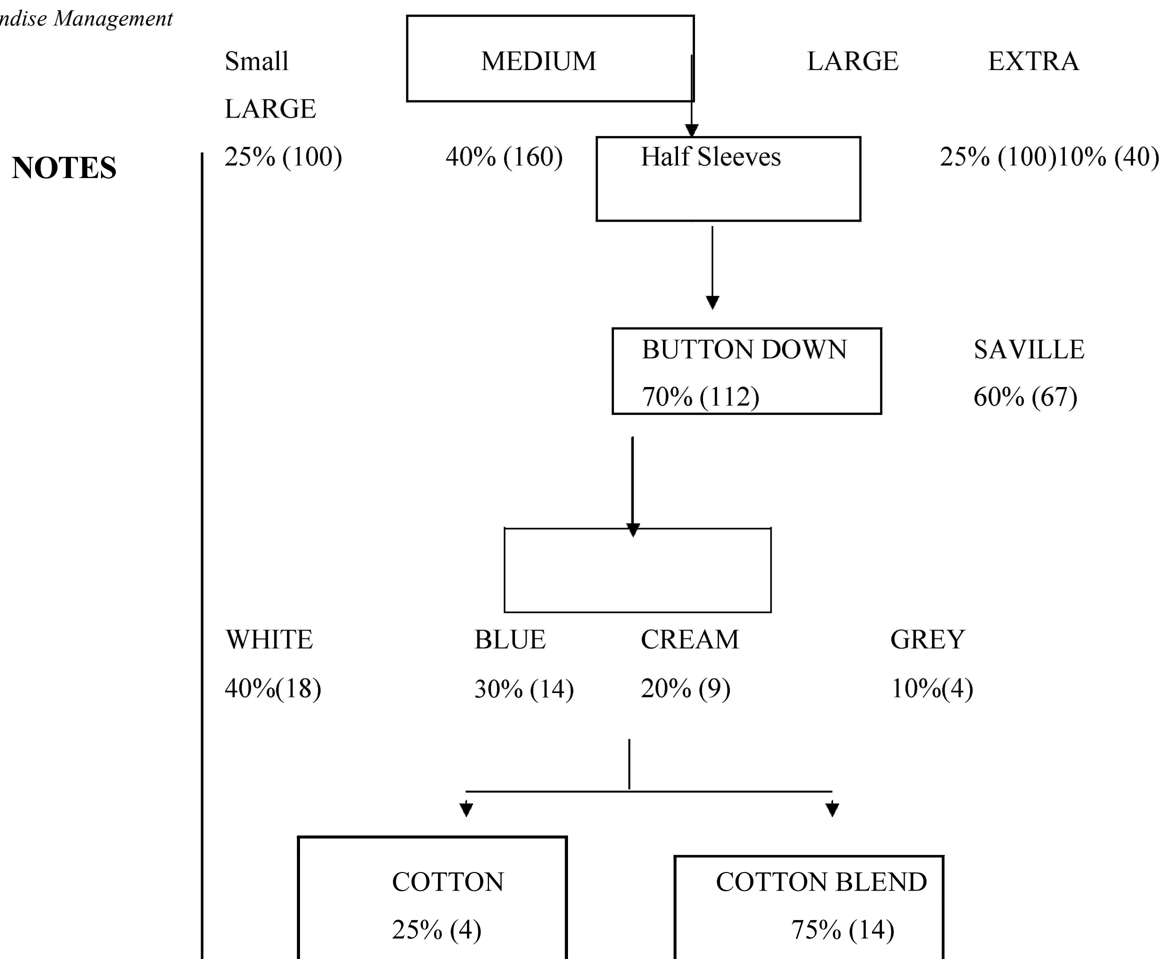


Fig. *Model stock plan*

If a retailer were to increase the number of attribute to be taken into consideration, the chances that the requires add product will match the customer's needs are increased.

MERCHANDISE BUYING

The basic role of a buyer is to find, evaluate and select merchandise for the retail store. In this process, he needs cultivate sources for which suitable merchandise can be secured for the retail organization. To do this effectively, he needs to answer the following questions:

What to buy?

When to buy?

How much to buy?

Where and from whom to buy?

NOTES

The methods that a buyer can use to determine the quantities to be purchased, have been covered in the previous chapter. This chapter focuses on the buying techniques, which can be used by a buyer to determine his sources of supply. An integral part of the buying decision is the decision to make or buy the product. The concept of the private label and how it is useful to retailers is discussed in detail. Category Management, which is an important part of retail in the developed markets, is discussed in the last section of this chapter.

A buyer is a representative of his retail organization, and he plays a key role in developing relationships with the manufacturers and vendors. This process starts with the identification of the sources of supply. To start with, it is necessary to decide as to whether the merchandise is to be sourced from domestic or regional markets or from international markets. This is largely related to the type of the retail organization, the product being offered and the target consumer. For example, products like high fashion garments, exclusive watches, perfumes, cosmetics, etc., may be obtained from the international market.

Merchandise buying is a four – step process, which involves:

1. Finding Supply Sources,
2. Identifying Potential Supplier,
3. Meritrating the Supply Sources, and
4. Finalizing terms with the Supply Sources. We now examine the four steps in detail.

1. Finding supply sources

Domestic sources of supply may be located by visiting central markets, trade shows or expositions may locate domestic sources of supply, usually, each city has its own central market, where a large number of key suppliers are located. A visit to such a location enables the buyer to understand the trends in the market and evaluate the new resources and merchandise offerings. Trade shows and expositions are also good for finding new sources of supply.

In addition to buying from the domestic market, an organization may seek out foreign sources, from where merchandise can be purchased. This is a common trend in the west where trade barriers are considerably lower. As retailers today operate in a global marketplace, the sourcing of products from international markets is also a reality.

The prime reasons for looking at international sourcing could be the uniqueness of the merchandise, or the unavailability of the merchandise in the domestic market. Low cost and good quality are also factors, which could affect this decision. On the other hand, a retailer may also source from a foreign market simply because the merchandise is unique and because certain customers are always looking for a unique product.

A decision that is closely associated with the branding decisions is to determine where the merchandise is made. Although retailers buying manufacturer's brands usually aren't responsible for determining where the merchandise is made, a product/s country of origin is often seen as a sign of quality.

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Costs associated with Global sourcing Include:

1. Country or Origin: Many a times, where the merchandise has been manufactured makes a high difference during the final sale of the product.
2. Foreign currency fluctuations.: fluctuations in the international currency rates will all effect the buying price of the product. At times, due to violent fluctuations in the price, sourcing products internationally may suddenly become viable or unlivable.
3. Tariffs: also known as duties, they are taxes placed by a government, on imports. Import tariffs shield domestic manufacturers from foreign competition and raise money for the government. GATT & MFA regulations affect such matters.
4. Foreign Trade Zones: These are special area within a country, that can be used for warehousing, packaging, inspection, labeling, exhibition, assembly, fabrication, or Trans-shipment of imports, without being subject to that country's tariffs.
5. Cost of Carrying Inventory: Purchase of goods is always at a price. When the merchandise is finally sold, it makes a very big difference on the carrying costs.
6. Transportation costs: while sourcing products internationally, it is essential to keep in mind the cost that will be involved in transporting the goods to the various markets that the retailer operates in. this is a cost which has to be added to the cost of goods and eventually, affects the margins that can be earned.

In order to source goods from the international market, the retailers may use the facilities of the Resident Buying Offices that it may have. For Example, a large number of international retailers have there buying office in India. The resident buying offices not only have an understanding of the local market, but once the orders are placed, the offices can make out the contracts, follow up on the delivery and on the quality control. Alternately, trade shows and wholesale market centers in various cities of the world, provide a good opportunity for the buyers and seller to meet.

While sourcing merchandise from India, a buyer has to take into consideration, the taxes levied by the Central government, the state government and the municipal taxes. Sales tax is a tax on the sales of goods. The liability to pay sales tax arises on making a sale of goods. In India, the law for levying sales tax is provided for under the central sales tax act, 1966, Excise the central government and the Rate of tax levy duties is uniform for a product, across the country.

The buyer also needs to take into consideration, the additions to the cost price that will come about due to octroi, which is levied in cities like Mumbai and Kolkata. That Municipal Corporation of Greater Mumbai levies octori on the invoice value of goods entering the city limits.

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Before taking a decision on sourcing internationally, the buyer needs to check whether the product to be sourced falls under the Open General List (OGL), the Restricted List or the Negative List. In case the goods fall under the OGL, a special import License (SIL) is required. Currently, there are 700 products, which are on the restricted list for imports and include, among other things, meat, dairy products, cheese, pulses, alcohol, various types of fabrics and garments and a large number of consumer durable. If the retailer wishes to import products which fall under the SIL, the Importer has to pay a premium and this again adds to the cost of the product and at times, largely increases the landed cost of the merchandise.

11 Identifying potential suppliers

A decision now needs to be taken on the potential vendors. The following criteria need to be kept in mind:

1. The target market for whom the merchandise is being purchased.
2. The image of the retail organization and the fit between the product and the image of the retail organization.
3. The merchandise and prices offered.
4. Terms and services offered by the vendor.
5. The vendor's reputation and reliability.

The prime factor, which affects these decisions, is, whether the merchandise offered by a vendor is compatible with the needs and wants of the customers. If the merchandise is not right, the vendor should nor be considered. Vendors also fall under different levels of dependability, with respect to the way that they conduct their business. Factors like the ability to meet the delivery schedules, adherence to quality procedures and the terms offered, play an integral role during vendor selection.

The services provided by a vendor may also be deciding factor. These service include cooperative advertising, return or exchange privileges, participation in store promotions and the willingness to use the relevant technology.

The retail buyer then needs to negotiate on the price, the delivery dates, the discounts, the shipping terms and the possibilities of returns. While negotiating with the vendors, it is necessary to keep in mind their history, their goals and constraints. At the same time, the buyer needs to be aware tot the real deadlines and work towards fulfilling them. The following are the types of discounts that could be available to the buyer:

Trade Discounts These are reductions in the manufacturer's suggested retail price, granted to wholesalers or retailers.

Chain Discounts This is the traditional manner of discounting, where a number of different discounts are taken sequentially, from the suggested retail price (e.g: 50-10-5).

Quantity Discounts These can be cumulative and non-cumulative. Retailers earn quantity discounts by purchasing certain quantities over a spiced period of time.

Seasonal Discount This is an additional discount; offered as a incentive to retailer to order merchandise in advance of the normal buying season.

Cash Discount It is the reduction in the invoice cost for paying the invoice, prior to the end of the discount period.

Each retailer will have his own criteria for the selection of vendors. The starting point may be a vendor registration form, which provides the dateline address, the preferred mode of payment, the sales tax number, etc. Registration with the relevant tax authorities, e.g. for Sales Tax, is a basic criteria used by many retailers to eliminate suppliers.

111 Merit rating the supply sources

Retailers have for lone, been wary of sharing information with their suppliers. This hardly surprising – considering their traditionally competitive relationship, with both sides trying to get the best of every deal. However, times have changed, and many retail organizations work with their suppliers as a team, to create a competitive advantage.

Shared information is a vital component of this new approach, but only if the right information is shared with the right people, for the right reasons. But how do we define there three – rights ? the right people are those individuals or organizations who can use the information you give them, to help you. To do this, the retailer needs to understand the importance of the trading relationship, to both the sides. If the retailer is a small customer of a big supplier, the latter may not be sufficiently interested in the retailer's business to bother using the information that he supplies however, if the information can be shown to benefit the supplier tool he may use it to help the retailer.

An example of this is a retail group that received weekly deliveries from a confectionery company, but still found themselves out of stock for some times. When details of their sales were given to the supplier, the latter was able to use its market knowledge to project sale far more accurately than the retail group could. the supplier benefited by now having to deliver at two – weekly intervals and the retailer benefited from lower stock holdings and less out of stock problems However, not all suppliers will be capable of making good use of retail stock data and this must be borne in mind while managing the supplier portfolio. The right information is that information which right people can actually use, to give better service. As a

simple example, take a new product being sold by a retail group with 100 outlets the stock is delivered through a single national warehouse operated by the retailer and the retailer does not share information with the manufacturer who supplies products to it. After the initial delivery is received at the warehouse, some stock is immediately dispatched to the stores and selling commences.

At this stage, the manufacturer has no idea of how the sales are going. After a few weeks, the stores start sending in orders to replenish their stock. But still, the manufacturer has no idea as to what is happening. In fact, the manufacturer will only; be able to estimate the sales when the retailer places another order to replenish the warehouse.

If the retailer had shared the information on his sales and stock, with the manufacturer, the latter would then have had the opportunity to anticipate out – of stock situation and to plan future actives and minimize delays in new production runs.

More significant than the sales figures, however, are the retailer's sales forecasts. Simply providing (historical) sales figures, may result in the manufacturer producing a forecast which differs markedly from the retailer's –and on which are based erroneous buying and production plans. It is far better for the retailer to provide the manufacturer with the forecasts, reflecting the planned future promotion plans, etc.

There are numerous options regarding the level of detail at which the information can be supplied. Very few manufacturers could make use of the daily sales of a store. Weekly sales might be the maximum level of detail required and many would prefer information just be region or store group.

So far, we have discussed the issue of information sent from the retailer to the supplier. But what about the other way round? An important piece of information for a retailer is news of new products and updates. All too often, a retailer will place an order only to find, just after delivery, that a replacement product has been announced. This does not help ease the tension in future negotiations.

Another area where the supplier can offer useful data is on market share. The supplier is in a unique position to tell the retailer, what percentage of marker share of specific products or product groups the various players hold. Toy manufacturer Mattel, for example, employs more toy specialists than Debenhams or House of Fraser and it can also spend more on researching their respective niches. They can consolidate various retailers' sales to check the trends. Their feedback can be especially valuable to retail buyers by showing them which areas are performing best and how strategies should adjusted.

Thus, to maintain strategic partnership with vendors, the buyer needs to build on:

1. Mutual Trust,
2. Open Communication,
3. Common Goals, and
4. Credible Commitments,

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1V Finalizing terms with supply sources

In case a buyer is dealing with multiple vendors for a particular product category, he can draw conclusions on a vendor's performance by listing the following:

- The total orders placed on the vendor in a year
- The total returns to the vendors, the quality of the merchandise.
- The initial markup on the products.
- The markdown, if any,
- Participation of the vendor in various schemes and promotions.
- Transportation expenses, if borne by the retailer.
- Cash discounts offered by the vendor, and lastly,
- The sales performance of the merchandise.

A factual evaluation of the vendors helps the buyers in being unbiased and in taking the right decision for the retail organization.

Respect and co-operation between the buyers and the vendors is necessary to build long-term relationships. In the fast changing world of retail, it is also necessary to share information with the vendors on a timely basis, so as to avoid stock outs or situations requiring heavy markdowns.

CATEGORY MANAGEMENT

Retail is often termed as a business of responding to change. Today's retailer is faced with a rapidly changing and demanding consumer, intense competition, and pressures on costs. The combinations of the business condition that exist today and the advances in technology have created an opportunity for the development of new management approaches. One such approach is that of category management.

The need to reduce costs, control inventory levels and replenish stock efficiently, led to the concept of Efficient Consumer Response (ECR) taking shape in the grocery retail industry in Europe and America. By focussing on a superior understanding of consumer needs, category management provides renewed opportunities for meeting consumer needs, and at the same time, for achieving competitive advantage as well as lower costs through greater work process efficiencies.

Category Management can be defined as – the distributors' / suppliers' process of managing categories as strategic business units, producing enhanced

business results by focusing on delivering consumer value. Thus, a category is a basic unit of analysis for making merchandising decision. In general, a category is an assortment of items that the customer sees as reasonable substitutes for each other. The fundamentals of category management revolve around managing categories as strategic business units.

At the core of the category management concept is a focus on a better understanding of consumer needs as the basis for the retailers' and suppliers' strategies, goals and work processes. Technology plays a key role, as information is a key enabler. The idea is to use this information to tailor the product offering according to consumer needs. The offering is then measured in terms of its sales, cost and returns per square foot. The whole process is aimed at providing customer satisfaction and at the some time, maximizing the returns for the organization. This focus results in a re-evaluation of many prevalent business practices, which may have obstructed a greater understanding of consumer needs and opportunities.

COMPONENTS OF CATEGORY MANAGEMENT

There are six components, which are key to the functioning of category management. Two of these are considered essential, without which category management cannot be started and they are therefore, called the core components. The other four are needed to enable to process, without these, category management can be started but it cannot be institutionalized on an on-going basis.

The two core components are: the Strategy and the Business processes. The enabling factors are performance measurement, information technology, organizational Capabilities and co-operative Trading partner relationships. This is illustrated in the following fig.

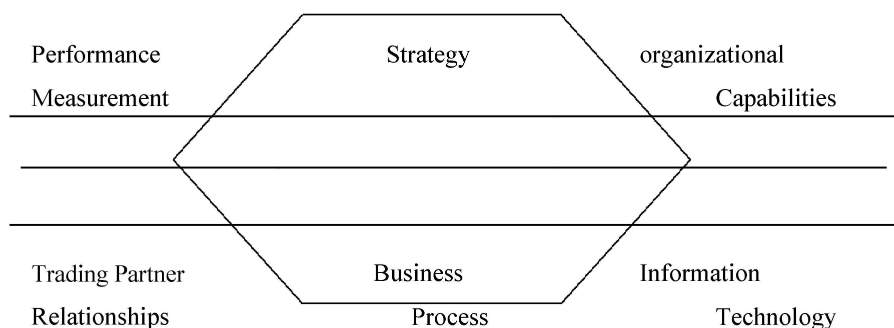


Fig. *The components of category Management*

The core component strategy is linked to the company's overall mission and goals. The business process, which evolves, is a result of these strategies. The business process focuses on how work has to be done within the organization and with its trading partners, rather than focussing on what is to be done.

Category management business process, as defined by the partnering group is illustrated in the following fig.

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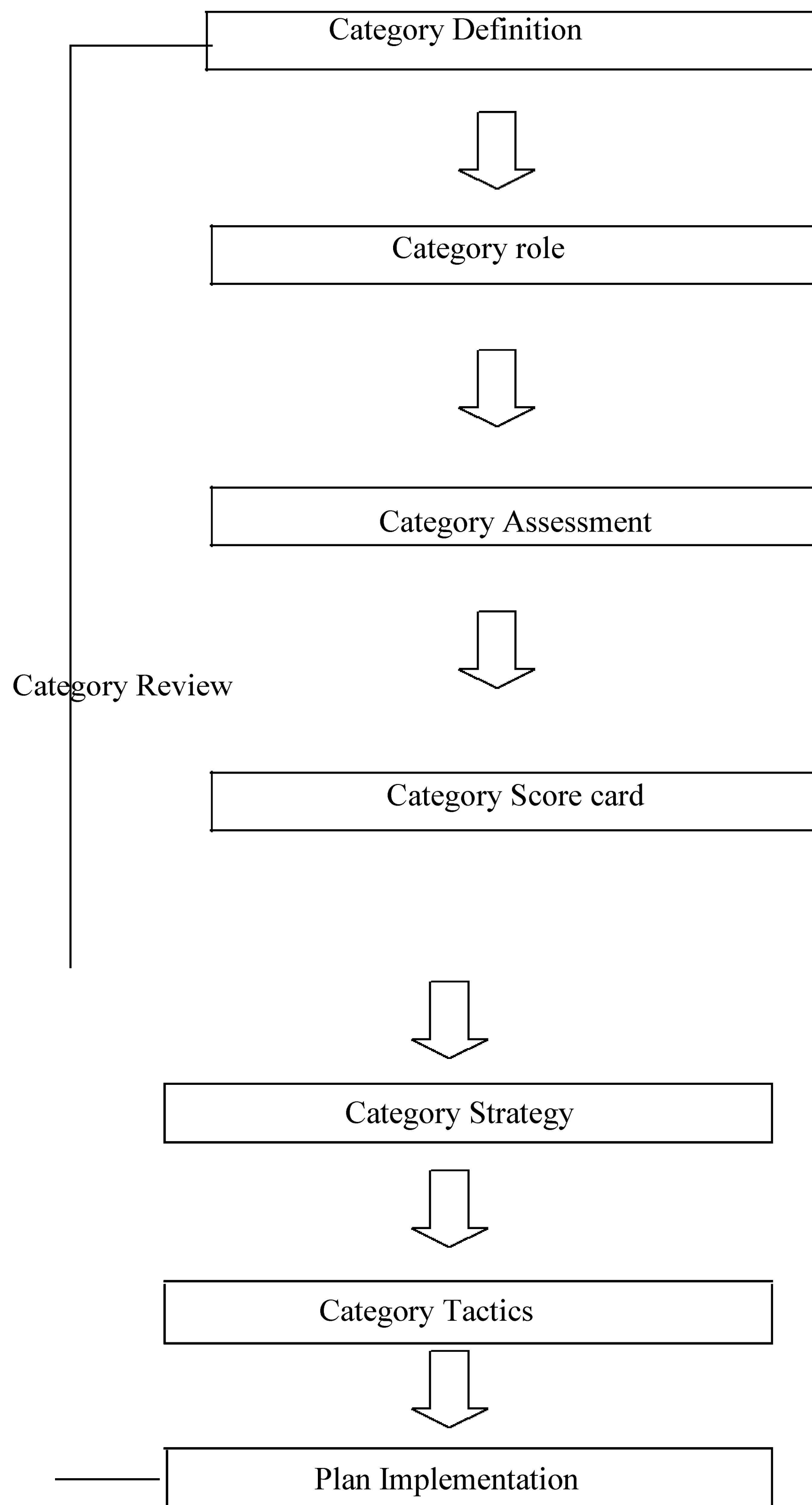


Fig. *The Category Management Business process*

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The steps involved in this process are explained briefly, below:

1. **Category Definition:** Category Definition is the first step in the process. The definition of the category has a significant impact on the subsequent steps. A category definition should be based on how the customer buys, and not on how the retailer buys. For example, for a grocery retailer, aerated drinks may be one category, ready to cook meals, another and health drinks, a third category. Category definition varies from retailer to retailer.
2. **Defining the Category Role:** The category role determines the priority and the importance of the various categories in the overall business. These aids in resource allocation. Traditionally, four categories have been identified. They are:
   - **Destination Category :** This is the main product offering of the retail store. Examples include fresh groceries at a supermarket and apparel in a department store.
   - **Routine category:** These are products that a customer buys from the retailer as a matter of routine or habit. Examples include toothpaste, soaps, etc.,
   - **Seasonal Category:** This includes products, which are not purchased very often or are purchased when available and needed. Examples would include mangoes sold in summer, in a super market, and umbrellas and raincoats, in a department store.
   - **Convenience Category:** These are products that a consumer finds convenient to buy at a neighborhood retailer. Examples include products like bread, eggs and even routine stationery. Category roles must be developed with the customer in mind and must reflect the typical consumer shopping behavior. These roles provide logical framework for the allocation of the retailer's resources, based on its mission, goals, and strategies.
3. **Category Assessment:** In this step, the current performance of the category is evaluated with respect to the turnover, profits and return on asses in the category. It involves an assessment of the consumers, the market, the retailer and the suppliers.
4. **Category Performance Measures:** The development of category performance measures involves the setting of measurable targets in terms of sales, margins and Gross Margin Returns on Investment (GMROI).
5. **Category strategies:** At this point in the process, the retailers and the supplier know the category's role; they have assessed the current performance of the category and have set preliminary targets for the category's performance. The purpose of this step is to help the retailer and supplier to develop strategies that capitalise on category opportunities through creative and efficient use of the resources that are available to the category.

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Category strategies can be aimed at building traffic or transactions, generating cash, generating profit, enhancing the image or creating excitement.

6. **Category Tactics:** At this stage, category tactics are developed in the areas of assortment pricing, promotions and the presentation of the merchandise in the store.
7. **Category plan implementation: A** Specific implementation schedule is developed and responsibilities are assigned. Accurate implementation is the key to the success of the Category Management.
8. **Category Review**: The final step in the business process is the review of the progress and of the actual achievements as against the targets set for the category. Review aids in the taking of decisions at the right point of time.

Category management is considered to be a – scientific approach to relating in the mature markets, largely because it is date driven and fact based. The successful adaptation of category management at pantaloon shows us how the returns on the particular product/category can be maximized by keeping the focus on the customer and creating systems and processes within the organization to aid such a focus.

RETAIL PRICING AND MERCHANDISE PERFORMANCE

Price is an integral part of the retail marketing mix. It is the factor, which is the source of revenue for the retailer. The price of the merchandise also communicates the image of the retail store to the customers. Various factors like the target market; store policies, competition and the economic conditions need to be taken into consideration while arriving at the price of a product.

- The first factor to be taken into consideration is the demand for the product and the target market. Who is this product meant for and what is the value proposition for the consumer. In some cases, the price of the product is linked to the quality. This is generally in the case of products like electronics, where a high priced product is perceived to be of good quality. On the other hand, for products like designer clothing, a certain section of the population may be willing to pay a premium price. Hence, it is very essential that the buyer is clear about the target market for the producer and the value proposition that they would look for.
- The stores policies and the images to be created also influence the pricing of a product. Retailers who want create a prestige image may opt for a higher pricing policy, while the retailer who wants to penetrate the market, may decide to offer a value for money proposition.
- Competition for the product and the competitor's price for similar product in the market also need to be taken into consideration. In case the product

is unique and does not have any competition, it can command a premium prices on the other hand, in case there after a fair number of similar products in the market, the prices of such product need to be taken into consideration before fixing the price.

- The economic conditions prevalent at the times play a major role in the pricing Policy. For example, during an economic slowdown, prices are generally lowered to generate more sales. The demand and supply situation in the market also affects Prices. If the demand is more than the supply, prices can be premium, however, when supply is mores than the demand, prices had to be economical.

The various factors affecting retail pricing are illustrated in the fig. shown below:

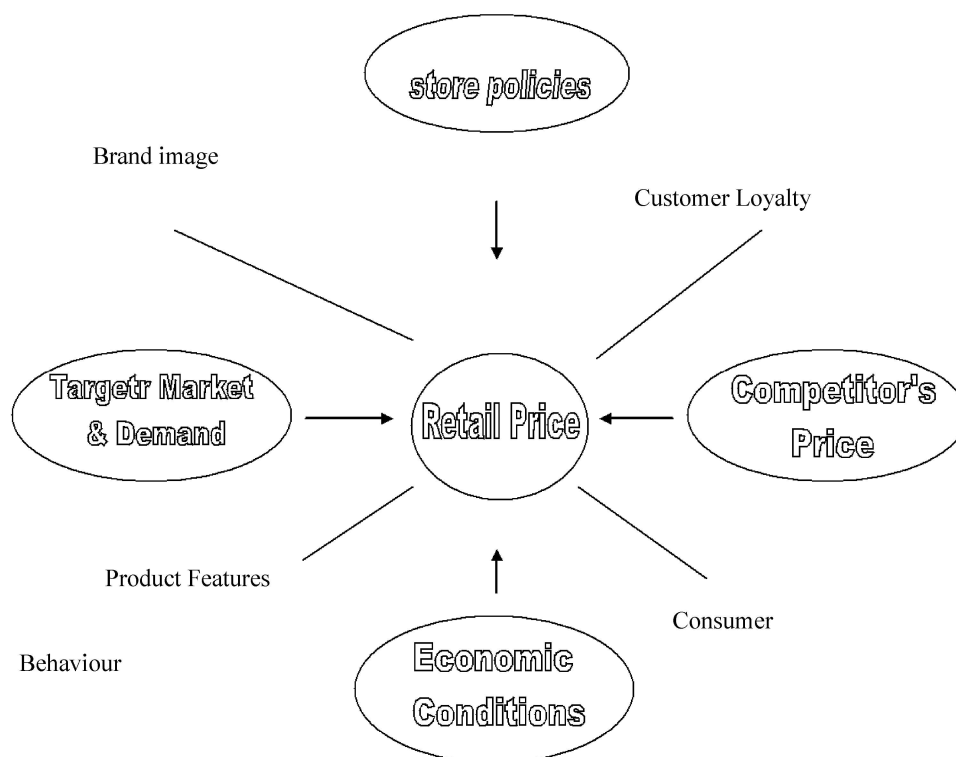


Fig. *Factors Affecting Retail Price*

The pricing objectives should be in agreement with the mission statement and merchandising policies of the retail organization.

ELEMENTS OF RETIL PRICE:

In order to arrive at the retail price, one needs to first consider the elements that go into the calculation of the price. The first element to be considered is the Cost of Goods, which is the cost of the merchandise and various other expenses that

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are involved in the movement of the goods from the manufacturer to the actual store. These expenses may be fixed or Variable. Fixed Expenses are those, which do not vary with the quantity of the sale or business done. Sop rents and head office costs fall into this category. The level of sales directly affects the variable expenses. Merchandise margins and the product mix, however, are variable, and their management can either enhance or destroy

Profitability.

The profit to be earned from the merchandises must be planned before fixing the retail price. The profit figure arrived at, can be expressed as a percentage of the retail price or as a percentage of the cost price.

Thus, the following formulae would apply:

Make Up Per cent (Based on Retail Price) = Mark Up in Rupees / Retail Price **and,**

Mark Up Per cent (Based on Cost) = Mark up in Rupees / Cost.

Let us under strand this concept with the help of the following illustration. Assume that the cost of the merchandise of an item I s Rs 200 and the mark up is Rs 150. The mark up percentage based one the retail price would work out to 37.5%.

The retail price has been calculated as 200+150 = 350.

Mark Up percentage on retail = 150 / 350 = 42.86%

Based on the cost price, the mark up percentage can be calculated as under:

Mark Up percentage on cost = 150 / 200 = 75 %.

The mark up thus fixed, is termed as the Initial Make Up. Rarely are all products sold completely at the fixed price. Reductions in price are often made and could be due to markdowns, employee discounts, customer discounts and / or shrinkage.

Markdowns are reductions in the original retail price. Markdowns are discussed in detail later in this chapter, in the section on adjustments to retail prices. Discounts offered to customers and employees who buy the products, also reduce the mark up percentage. Shrinkage includes loss of merchandise due to thefts, or damaged / soiled goods. All these costs reduce the profit margin and hence must be accounted for.

DEVELOPING A PRICING STRATEGY

The pricing strategy adopted by a retailer can be cost-oriented, demand-oriented or competition-oriented.

In Cost-oriented pricing, a basic mark up is added to the cost of the merchandise, to arrive at the price. Here, retail price is considered to be function of the cost and the mark up.

Thus, Retail Price = Cost + mark up

If this formula is rearranged, we get

Cost = Retail Price – Mark up and,

Mark up = Retail Price– Cost.

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The difference between the selling price and the cost is considered to be the mark up and should cover for the operating expenses and the transportation, etc. Mark up percentages may be calculated on the retail price or on the cost. They are calculated as under.

Mark up % (at retail) = (Retail Selling Price – Merchandise Cost) / Retail Selling Price

Mark up % (at cost) = (Retail Selling Price – Merchandise Cost) / merchandise Cost When the buyer is aware of the mark up percentages required and of the selling price, he can also work out the price at which he actually needs to procure the product.

Since it may not be possible to adopt a policy of maintaining a single mark up for a product category, the concept of a variable mark up policy can be followed. This allows the buyer to procures goods at varying price, but at the same time, maintain the margin that need to be earned, as some products may earn a higher margin as compared to other.

Demand-oriented pricing focuses on the quantities that the customers would buy at various prices. It largely depends on the perceived value attached to the product by the customer. Sometimes, a high priced product is perceived to be of a high quality and a low priced product is perceived to be of a low quality. An understanding of the target market and the value proposition that they would look for is the key to demand-oriented pricing.

When the prices adopted by the competitors play a key role in determining the price of the product, then competition-oriented pricing is said to follow. Here, the retailer may price the product on par with the competition, above the competitor's price or below that price.

APPROACHES TO A PRICING STRATEGY

Price lining do retailers use a term when they sell their merchandise only at the given prices. A price zone or price range is a range of prices for a particular merchandise line. A price point is a specific price in that price range. The pricing strategies that can be followed include:

- **Market skimming** The strategy here is to charge high prices initially and then to reduce them gradually, if at all. A skimming price policy is a form of price discrimination over time and for it to be effective, several conditions must be met.

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- **Market Penetration** This strategy is the opposite of market skimming and aims at capturing a large market share by charging low prices. The low prices charged stimulate purchases sand can discourage competitors from entering the market, as the profit margins per time are low. To be effective, it needs economies of scale, either in manufacturing, retail or both. It also depends upon potential customers being price sensitive about particular item and perhaps, not perceiving much difference between brands.
- **Leader pricing** Here, the retailer bundles a few products together and offers them at a deep discount so as to increase traffic and sales on complementary items. The key to successful leader pricing strategy is that the product must appeal to a Large number of people and should appear as a bargain. Items best suited for this type of pricing are those frequently purchased by shoppers, e.g., bread, eggs, milk, etc.
- **Price Bundling** Here, the retailer bundles a few products together and offers them at a particular price. For example, a company may sell a PC at a fixed price and the package may include a printer and a web camera.

  Another example is that of the Value Meal offered by McDonald's. Price bundling may increase the sales of related items.
- **Multi-unit Pricing** In multi-unit pricing, the retails offers discounts to customers who buy in large quantities or who buy a product bundle. This involves value pricing for more than one of the same item. For example, a retailer may offer one T-shirt for Rs 255.99 and two T- shirts for Rs 355.99. Multi-unit pricing usually helps move products that are slow moving.
- **Discount pricing** It is used as a strategy by outlet stores who offer merchandise at the lowest market prices.
- **Every Day Low Pricing** Every Day Low Pricing or EDLP as it is popularly known, is a strategy adopted by retailers who continually price their products lower than the other retailers in the area. Two famous examples of EDLP are Wal- Mart and Toys – R Us, who regularly follow this strategy.
- **Odd Pricing** Retail prices are set in such a manner that the prices end in odd numbers, such as Rs 99.99 or Rs 199, Rs 299,etc.

The buyer may adopt either the cost-oriented or a demand-oriented approach for setting prices. In the **Cost-oriented method**, a fixed percentage is added to the cost price. This is determined by what mark up the retailer works on. Alternately, the demand-oriented method bases prices on what price the customer expects to pay for the product. The price fixed here is based on the perceived value of the product. Ultimately, it is the planned gross margin, which needs to be achieved, and which is a major consideration while fixing the retail price.

ADJUSTMENTS TO RETAIL PRICE

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Many a times, retail prices need to be adjusted to meet the conditions prevailing in the market. Adjustments to retail prices can be done by way of markdowns or by way of promotions. Markdowns are a permanent reduction in the price and this step may be taken as a result of slow selling of the product or as a part of a systematic strategy. Markdowns are usually done after a determined number of weeks in order to maintain a desired rate of sales.

Timely markdowns help improve the profitability, increase the turnover and increase the profit. Markdowns may be necessitated due to wrong forecasting, overbuying, faulty selling practices or simply because the product is shop soiled or the odds and ends of a range are left at the end of a season. The mark down percentage is calculated as follows:

Total mark down / total sales × 100

Promotions on the other hand, are a temporary reduction in the price, used to generate additional sales during peak selling periods. Prices may be reduced by a percentage (25 percent off) or to a lower sale price (Rs. 99). High volume items, with a substantial initial markup, are usually selected for promotions.

Promotions may also include coupons, which may reduce the retail price by an amount or a percentage. With retail coupons, the retailer absorbs the reductions in the price.

A Comparison of Mark ups and Markdowns

A mark up is where profit is expressed as a percentage of the costs, as shown below:

(price-Cost)/Cost×100)

Thus, a selling price of Rs 30, with a cost of Rs 20, gives a mark up of 50 percent. A markdown is where profit is expressed as a percentage of the sale price and is shown below:

(price-Cost)/Price×100)

thus, a selling price of Rs 60, with a cost of Rs 24, gives a markdown of 60 percent.

% Markdown on selling price = %Mark Up on cost × 100

= 100% = Mark Up on cost

% Mark Up on cost = % Markdown on selling price × 100

= 100 % - % Markdown on selling price

MERCHANDISE ALLOCATION

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Once the merchandise is purchased and priced, it must be allocated to the stores. Most retailer classify their stores as A,B, or C, based on their sales potential. Each chain's allocation of merchandise to its stores is different, but it should be based on the total number of stores in the chain and the distribution of sales among the stores. Each store, regardless of its size, must carry a large proportion of the assortment offered; otherwise, the customers will perceive the smaller stores as having an inferior assortment.

The stores which are larger, and amount for a larger percentage of the sales, can get merchandise more frequently. The seasonally of demand, colors the amount of time that it takes for the merchandise to reach the locations, specific colors, and sizes, all these factors must be taken into account while allocation the merchandise.

The stores, which are larger, and amount for a larger percentage of the sales, can get merchandise more frequently. The seasonally of demand, colors the amount of time that it takes for the merchandise to reach the locations, specific colors and sizes, all these factors must be taken into account while allocating the merchandise.

ANALYSING MERCHANDISE PERFORMANCE

There are three methods of analyzing merchandising performance:

1. The ABC analysis,
2. The sell through analysis and
3. The Multiple Attribute method.

I. ABC Analysis

ABC analysis ranks merchandise by a pre-determined performance measure. This helps determine which items should never be out of stock, which items should occasionally be allowed to be out of stock and which items should be deleted from the stock selection. An ABC analysis can be done at any level, for merchandise classification from stock keeping unit (SKU) to department.

ABC analysis utilizes the 80:20 principle, which implies that 80% of the sales come from 20% of the products.

The first step in the ABC analysis is to rank order SKUs, using one or more criteria. The most important performance measure for this type of analysis is contribution margin, where

Contribution margin = Net Sales – Cost of Goods Sold – Other variable expenses

Other variable expenses can include sales commissions. Sales can be the sales per square foot, the gross margin or the GMROI.

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Pareto Curve

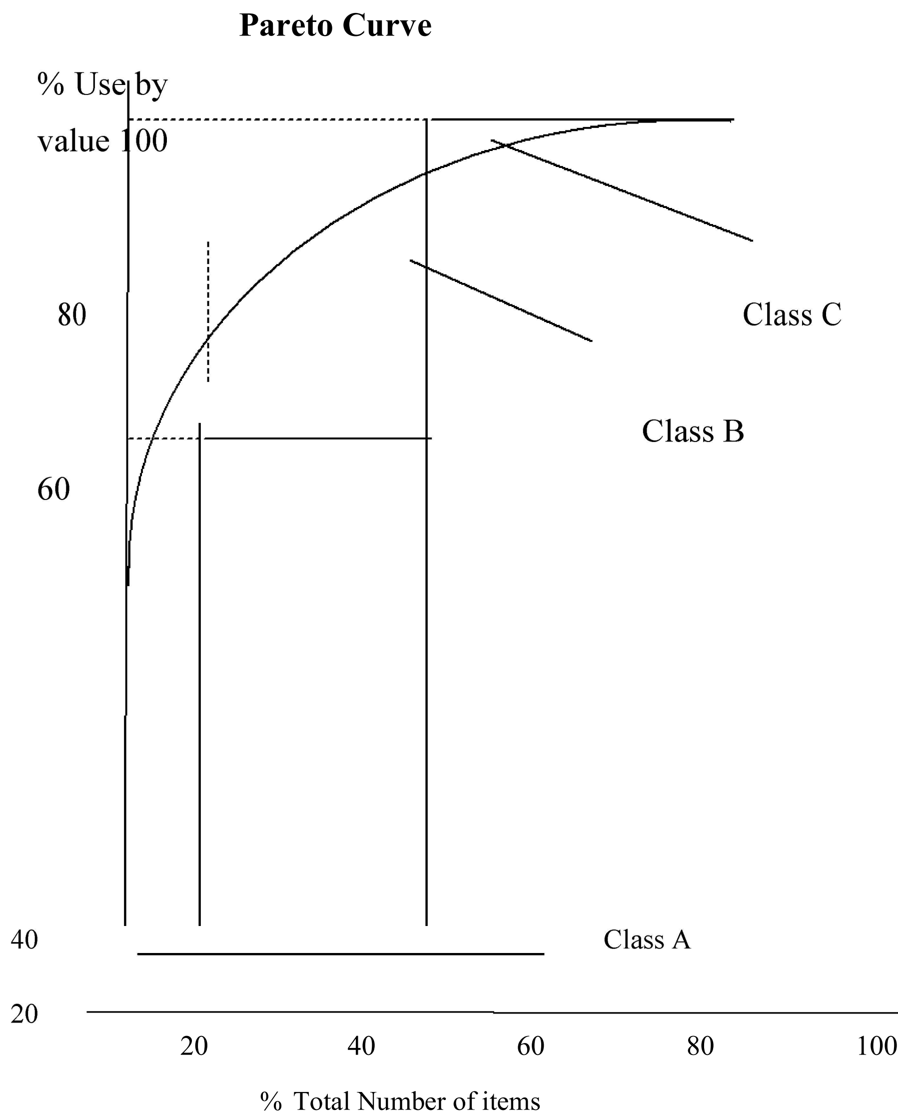


Fig . The Pareto Curve

The next step is to determine how items with different levels of profit or volume, should treated. The buyer may define as category A, those items that account for 5% of the total quantity of items but represent 70% of the sales. Category B items usually represent 10% of the sales whereas category D consists of those items for which there were no sales in the past season.

2. Sell Through Analysis

A sell through analysis is a comparison between the actual and the planned sales, to determine as to whether early markdowns are required or whether more merchandise is needed to satisfy demand. There is no reel, which can determine

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when a mark down is necessary. It depends on factors like the past experience with the merchandise whether the merchandise is schedule to feature in advertising, whether the vendor can reduce the buyer's risk by providing markdown money, etc. If actual sales stay significantly ahead of the planned sales, a reorder should be made.

3. Multiple Attribute Method

This method uses a weighted average score for each vendor. The following steps are followed.

1 developed a list of issues to consider for decision – making – vendor reputation, service, merchandise quality, selling history, etc.
2. Give importance weights to each attribute.
3. Make judgement about each individual brand's performance on each issue.
4. Combine the importance and performance scores
5. Add all to arrive at the brand scores.

GROSS MARGIN RETURN ON INVESTMENT (GMROI)

Many retailers use the performance indicator of gross margin percent (after markdown) and weeks cover to measure performance. While the gross margin percent is a measure of the relative profitability, without taking into account the costs of stockholding investment, week's cover tells us how effectively the stock was turned, without in forming us about its relative profitability. What is needed is a measure that combines these two indicators, into an indicator of real profitability. GMROI is such an indicator.

GMROI is calculated as Gross Margin/Average Inventory at Cost

GMROI is a merchandise planning and decision making tool that assists the buyer in identifying and in evaluating whether an adequate gross margin is being earned by the products purchased, compared to the investment in inventory required to generate the gross margin. It focuses the buyers‘ attention on the return on investment, rather than on department totals and it helps identify produced winners‘ and core products‘.

Product winners are those products that perform well, which boost profitability and are the best return – on – investment products. Core Products on the other hand, are the buyer's list of existing winners that should never be out of stock. They‘re the most valuable products in terms of their high profitability and their excellent return on investment.

Another method of managing inventory investments is to predetermine the stock levels at which merchandise should be reordered. This is known as the

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reorder point. Various factors, like the lead-time required, the safety stock and the speed at which the products sell, have to be taken into consideration. It may not always be possible for a retail buyer to place orders for products in small quantities, hence, the Economic Order Quantity (EOQ) is determined. For this purpose, it is necessary to first determine the sales for the product, then take into consideration various factors like the cost, discounts offered and the cost of holding the inventory and the Economic Order Quantity is determined. The EOQ is calculated by using the following formula

$$EOQ = 2Ds / IC, \text{ where}$$

D= annual demand, S = Costs to place the order, I= Percentage of annual carrying cost to unit cost and c= unit cost of an item.

The EOQ model assumes that the unit cost of an item is constant, irrespective of the quantity ordered. In practice, for large orders, quantity discounts in price and transportation costs are usually offered. Such discounts cannot be accounted for in the EOQ model.

Summary

The success of any retail operation is largely based on the retailer's ability to prove the right goods to the consumer, at the right place and at the right time. It is for this reason that the function of merchandising plays a key role in retail.

With the growth of organized retail I the world, this function has gained in significance. The Size of the organization, the merchandise to be carried, they type of stores and the organization structure, all affect the merchandising function. The two key players in this function, are the buyer and the merchandiser.

The starting point of the merchandising function is analysis. Analysis forms the basis of the sales forecast. A sales forecast is usually made for a specific period of time. It is an outline of what sales need to be achieved and what revenues are targeted.

Planning provides the direction and serves as the basis of control for any merchandise department. The merchandise budget is first created and this helps in the formation of the Assortment Plan. Depending on the method of inventory planning used, the six-month merchandise plan is created. This gives the overall picture of how many inventories is needed every month. Once the inventory levels needed are determined, the money available for buying has to finalize. Computing the Open-To-Buy tells the buyer about the money available for buying has to be finalised. Computing the Open –To – Buy, tells the buyer about the money available for buying. The Assortment Plan is then created and it gives the precise items and quantities that need to be purchased for each merchandise line.

Merchandise buying is a four-step process, which involves identifying the sources of supply, contacting the sources of supply, evaluating the sources of supply and negotiating with the sources of supply,

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Sources of supply may be domestic or international. Various aspects associated with international souring, like Foreign Currency Fluctuations, Tariffs, Foreign Trade Zones, Cost of Carrying Inventory and the Transportation Costs have to be taken into consideration.

After having decided on the source of the merchandise, buyer then needs to move on and establish a strategic partnership with the vendor. This requires Mutual Trust, Open Communication, Common Goals and Credible Commitments. A decision needs to be taken on whether to stock manufacturers' brands, licensed brands or to create an own label.

Information technology now makes it possible for retailers and suppliers to share information and change collective business practices in ways that would have been unrealistic in the recent past. The net impact of all these and other changes has been to enable many within the industry, to do more with current resources and to refocus on meeting consumer needs for value, variety and service, as the basis for creating competitive differentiation.

Given these challenges, retailers and suppliers need to intensify their efforts to better understand consumer needs and to meet those needs more effectively. Category management is the result of a set of business conditions that have increasingly challenged many traditional management methods. By focusing on a superior understanding ;of consumer needs, category management provides renewed opportunities for meeting consumer needs and, at the same time, for achieving competitive advantage as well as lower costs through greater work process efficiencies.

Arriving at the right price for a product or service is one of the most difficult tasks of marketing. In order to arrive at the retail price, one needs to first consider the elements that go into the making of the price. The elements to be considered are the Cost of Goods and the Merchandise Margins.

Various other factors, like the target market, store policies; competition and the economic conditions need to be taken into consideration while arriving at the price of a product. The pricing strategy adopted by a retailer may be cost-oriented pricing, demand-oriented pricing or competition oriented pricing.

The pricing strategies that may be followed include, market skimming, market penetration, leader pricing, price bundling, Multi unit pricing, discount pricing, every day low pricing and odd pricing. Adjustments to retail price are made by way of markdowns. Markdowns are a permanent reduction in the price and may be done as a result of slow selling or as a part of a systematic strategy.

Merchandise performance can be evaluated by using the ABC analysis, the sell through Analysis or by the Multiple Attribute Method. The Margin Return on Investment or GMROI, is a useful tool for merchandise planning. It can help identify products, which are winners, and those that need attention. Other methods of managing inventory investments include predetermining the Reorder Point and by determining the Economic Order Quantity.

UNIT - IV COMMUNICATING WITH THE RETAIL CUSTOMER- RETAIL PROMOTION MIX – ADVERTISING – SALES PROMOTION – PUBLICITY – RETAIL SELLING PROCESS – RETAIL DATABASE

4.1 COMMUNICATING WITH THE RETAIL CUSTOMER

Promotion is basically a communication process. This has become necessary as the process of selling is more complex today because products are more technical, buyers are more sophisticated, and the competition is more intense. Without proper flow of information and effective communication from the producer to the consumer either along with the product or well in advance of the introduction of product into the market, no sale is possible today. The various promotion mix elements designed for this purpose are also referred to as –Communications Mix . The process of communication mix is as follows.

Operation of Communication Process

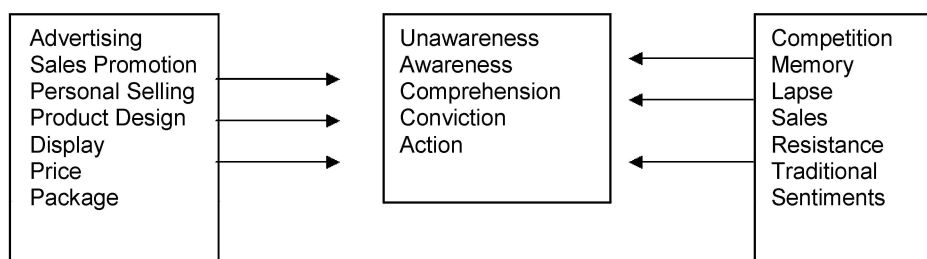


Figure 4.1.1 *Marketing Communication Process*

4.1.2 Need for Communication

When a company develops a new product, changes an old one, or simply wants to increase sales of an existing product, it must transmit its selling message to potential customers.

The process of communication is generally divided into Explicit and Implicit communications. The former one involves the use of language to establish common understanding among the people. Implicit communication is an intensive interpretation of symbols' and is basically a form of non-verbal communication. For example, when two foreigners meet, even though they are unable to communicate through a common language, they will exchange, they will exchange their views through meaningful symbols.

Promotion is an – exercise in information, persuasion, and influence . Accordingly, promotion has come to mean the overall coordination of advertising, selling, publicity, and public relations. Promotion is a helping function designed to make all other marketing activities more effective and efficient. But sales promotion as such helps only the selling activity.

4.1.3 The marketing communications mix (also called the promotion mix) consists of five major tools:

Advertising: Any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor.

Direct Marketing: Use of **mail, telephone** and other non personal contact tools to communicate with or solicit a response from specific customers **and** prospects.

Sales Promotion: **Short-term incentives** to encourage trial or purchase of a product or service.

Public Relations und Publicity: *A* variety of programs designed to promote and / or protect a company's image or its individual products.

Personal Selling: Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

The whole marketing mix, **not just the** promotional mix, must be orchestrated for maximum communication impact.

4.1.4 The Communication Process:

Marketers need to understand how communication works. A communication model answers (1) who (2) says what (3) in what channel (4) to whom (5) with what effect. The following shows a communication model with nine elements. Two elements represent the major parties in a communication - sender and receiver. Two represent the major communication tools - message and media. Four represent major communication functions - encoding, decoding, response, and feedback. The last element is noise in the system.

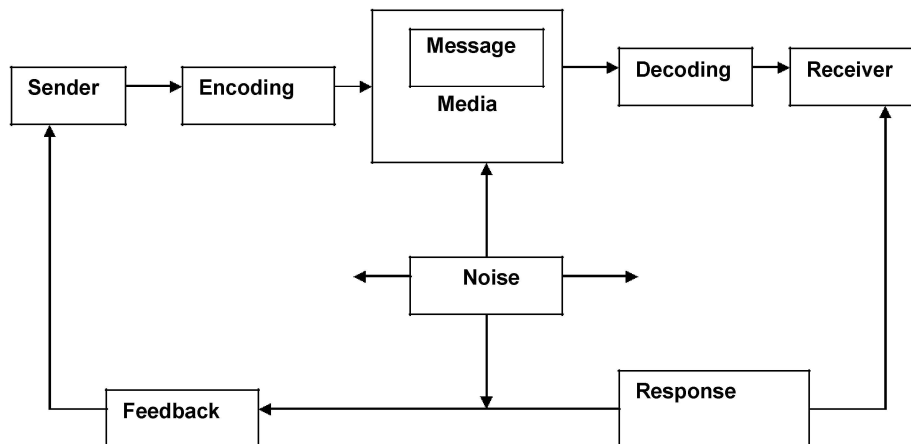


Figure: 4.1.2 *Elements in the Communication Process*

The model underscores the key factors in effective communication. Senders must know what audiences they want to reach and what responses they want. They encode their messages in a way that takes into account how the target audience usually decodes messages. The sender must transmit the message through efficient media that reach the target audience. Senders must develop feedback channels so that they can know the receiver's response to the message.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. Messages are essentially signs that must be familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. "The source can encode, and the destination can decode, only in terms of the experience each has had". This puts a burden on communicators from one stratum (such as advertising people) who wants to communicate effectively with another stratum (such as factory workers).The sender's task is to get his or her message through to the receiver. There is considerable noise in the environment - people are bombarded by several hundred commercial messages a day. The target audience may not receive the intended message for any reasons. The communicator must d esign the message to win attention in spite of surrounding distractions.

Activity 1

Examine the communication process of Advertisement, Personal selling and window display

1. ....
2. ....
3. ....
4. ....
5. ....

4.1.5 Steps in Developing Effective Communication:

We will now examine the major steps in developing a total communication and promotion program. The marketing communicator must (1) identify the target audience,(2) determine the communication objectives, (3) design the message, (4) select the communication channels, (5) allocate the total promotion budget, (6) decide on the promotion mix, (7) measure the promotion's results, and (8) manage and coordinate the total -.marketing communication process.

1. Identifying the Target Audience:

A marketing communicator must start with a clear target audience in mind. The' audience could be individuals, groups, **particular** publics, or the general public. The target audience will critically influence the communicator's decisions on what to say, how to say it, when to say it, where to say it, and to whom to say it.

2. Determining the Communication Objectives

Once the target market and its characteristics are identified, the marketing communicator must decide on the desired audience response. The ultimate response, of course, is purchase and satisfaction. But purchase behavior is the end result of a long process of consumer decision making. The marketing communicator needs to know how to move the target audience to higher states of readiness to buy.

The marketer can be seeking a cognitive, affective, or behavioral response from the target audience. That is the marketer might want to put something into the consumer's mind, change the consumer's attitude, or get the consumer to act. Even here, there are different models of consumer-response stages.

Stages	AIDA MODEL	HIERARCHY OF EFFECTS MODEL	INNOVATION ADOPTION MODEL	COMMUN ICATION MODEL
Cognitive Stage	Attention	Awareness Knowledge	Awareness	Exposure Reception Cognitive response
Affective Stage	Interest Desire	Liking Preference Conviction	Interest Evaluation	Attitude Intention
Behaviour Stage	Action	Purchase	Trial Adoption	Behaviour

Figure 4.1.3 *Four best-known response hierarchy models.* Sources :(a) E K.

Strong, The Psychology of. Selling (New York: McGraw-Hill, 1925), p.9; (h) Robert .j. Laving and Gary A. .Steiner; "A Model for- 1'reclictive Measurements of Advertising Effectiveness", Journal of Marketing. October

1961. p.61: (c) 1:'verett M. Roger's, Diffusion of innovations (New York: Free Ness, pp.79-86: (d) various sources.

All of these models assume that the buyer passes through a cognitive, affective, and behavioral stage_ in that order. This sequence is the "learn-feel-do" sequence and is appropriate when the audience has high involvement with a product category perceived to have high differentiation, as is the case in purchasing an automobile. An alternative sequence is the "do-feel-learn" sequence, when the audience has high involvement but perceives little or no differentiation within the product category, as in purchasing iron rods. Still a third sequence is the "learn-do-feel" sequence, when the audience has low involvement and perceives little differentiation within the product category; as is the case in purchasing salt. By understanding the appropriate sequence, the marketer can do a better job of planning communications.

If most of the target audience is unaware of the object, -the communicator's task is to build awareness, perhaps just name recognition. This can be accomplished with simple messages repeating the name.

3. Designing the Message

Having defined the desired audience response, the communicator moves to developing an effective message. Ideally, the message should gain attention, hold interest, arouse desire, and elicit action (AIDA model). In practice, few messages take the consumer all the way from awareness through purchase, but the AIDA model suggests the desirable qualities.

Formulating the message will require solving four problems: what to say (message content), how to say it logically (message structure), how to say it symbolically (message format), and who should say it (message source).

4. Selecting the Communication Channel s:

The communicator must select efficient channels of communication to carry the message. Communication channels are of two broad types, personal & non personal. Within each are found many sub channels

(a)Personal Communication Channels

Personal communication channels involve two or more persons communicating directly with each other. They might communicate face to face, person to audience, over the telephone, or through the mail. Personal communication channels derive their effectiveness through the opportunities for individualizing the presentation and feedback.

A further distinction can be drawn between advocate, expert, and social channels of communication. Advocate channels consist of company salespeople contacting buyers in the target market. Expert channels consist of independent experts making statements to target buyers. Social channels consist of neighbors, friends, family members, and associates talking to target buyers.

Many companies are becoming acutely aware of the power of the "talk factor" or "word-of-mouth" coming from expert and social channels in generating new business. They are seeking ways to stimulate these

(b) Non Personal Communication Channels:

Non personal communication channels carry messages without personal contact or interaction. They include media, atmospheres, and events.

Media consist of print media (newspapers, magazines, direct mail), broadcast media (radio, television), electronic media (audiotape, videotape, videodisc), and display media (billboards, signs, posters). Most non personal messages come through paid media.

Events are occurrences designed to communicate particular messages to target audiences. Public relations departments arrange news conferences, grand openings, and sport sponsorships to achieve specific communication effects with a target audience.

Although personal communication is often more effective than mass communication, mass media might be the major means to stimulate personal communication. Mass communications affect personal attitudes and behavior through a two-step flow-of-communication process. "Ideas often flow from radio and print to opinion leaders and from these to the less active sections of the population"

Activity 2

Draft a communication channel for a product which you regularly purchase.

1. ....

2. ....

3. ....

4. ....

5. ....

5. Establishing the total promotion Budget:

One of the most difficult marketing decisions facing companies is how much to spend on promotion.

This it is not surprising that industries and companies very considerably in how much they spend on promotion. Promotional expenditures might amount to 30to50% of sales in the cosmetics industry and only 10 to 20% in the industrial equipment industry. Within a given industry, low-and high-spending companies can be found. How do companies decide on their promotion budget? We will describe four common methods used to set a promotion budget.

Many companies set the promotion budget at what they think the company can afford. One executive explained this method as follows: "why it's simple.

This method of setting budgets completely ignores the role of promotion as an investment and the immediate impact of production on sales volume. It leads to an uncertain annual promotion budget, which makes long-range market communication planning difficult.

6. Promotion Mix

Demand of goods is to be created to sell the goods produced in the market be created. Without demand creation, no sale can be effected. It is a continuous process throughout the product life cycle. At introduction level utmost efforts are made to make a product recognized by the customers. The demand once created, would have to be maintained and increased. Efforts for demand creation continue even in the declining stage. For this purpose, promotional activities are undertaken. A promotional mix involves three main activities: personal selling, advertising and sales promotion activities. Personal selling is direct or personal method of selling the product through salesmen or retailer. Advertising and sales promotion are impersonal methods of promoting the sales.

7. Measuring Promotion s Results:

After implementing the promotional plan, the communicator must measure its impact on the target audience. This involves asking the target audience whether they recognize or recall the message, how many times they saw it, what points they recall, how they felt about the message, and their previous and current attitudes towards the product and company. The communicator would also want to collect behavioural measures of audience response, such as how many people bought the product, liked it, and talked to others about it.

8. Total Marketing Communication

Management combines the four controllable into marketing strategy market, distribution promotion and price strategies. It involves establishing and maintaining communications with target markets and interview middlemen, through various marketing communications media-advertising, personal selling, point of purchase materials, packing and other media like samples and coupons.

The messages sent involve various aspects of the overall marketing strategy that might contribute to favourable buying response on the parts of middlemen and members of target market segment. Successful promotion comes about only through effective communication. Communication gap may be very harmful in the achievement of marketing goals.

Self Evaluation Exercise

1. What is communication and discuss the need for it?
2. How the communication process operated? Illustrate.
3. What is marketing Communication Mix? Discuss
4. Elaborate the various steps in developing effective communication.

4.2 ADVERTISEMENT

The word advertisement originated from the Latin term advertise' meaning to turn to. Advertising is paid form of publicity. It is non-personal. It is directed at a mass audience and not directly at the individual as in the case of personal selling. It is identifiable with its sponsor or originator which is not always the case with publicity or propaganda.

4.2.1 Evolution of Advertising

The Beginning: - Romans practiced advertising. The potentiality of advertising multiplied when the hand press was invented at the end of the 15th century. By Shakespeare's time the posters had made their appearance. Thus gradually advertising assumed the function of fostering demand for excising products.

Mass Advertising: - It was in the latter half of the 19th century that mass advertising came into being. As mass production became a reality channels of distribution had to be developed to cope with the physical movement of goods creating a need for mass communication to inform customers of the choice available to them. This development was accelerated by increasing literacy.

Advertising in India: - In India advertising was accepted as a potent recognized means of sales promotion only two decades ago. This delay is attributable to late industrialization in India. But as India has become an industrial country, advertisements appear regularly in local as well as national papers.

4.2.2 Definition

American Marketing Association defines, –Advertising is any paid form of non- personal presentation and promotion of ideas, goods or services by an identified sponsor. It involves the use of such media as magazine, newspaper, space, radio, motion pictures, outdoor media, cards, catalogues, direct mail, directories and references, store signs, programmers and menus, novelties and circulars .

* Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducing people to buy. **—Wheeler**
* Advertising is a paid form of non personal presentation of ideas, goods or services by an identified sponsor . **—Richard Buskirk**
* Advertising consists of all the activities involved in presenting to a group, a non-personal, oral or visual, openly-sponsored message regarding a product, services or idea, this message is called an advertisement, is disseminated through one or more media and is paid for by an identified sponsor.

—William J.Standon

The above definitions clearly reveal the nature of advertisement. This is another powerful element of the promotion mix. Essentially, advertising means spreading of information.

4.2.3 Elements of Advertising

On the basis of the definitions, the essential elements of advertising can be listed as follows:

1. **Non-Personal communication:** Advertising is a mass non-personal communication reaching a large group of buyers. It is neither delivered by actual persons not addressed to an individual or small audience of individuals. The communication is speedy permitting the advertiser to speak hundreds or thousands of people within a shorter period.
2. **Matter of record:** It is a matter of record furnishing information for the benefit of the buyers. It guides them to make a satisfactory purchase. The contents of the advertisement are what the advertisers want.
3. **Paid from of publicity:** Advertising is a paid form of presentation. The sponsor must pay for it to other person whose media is employed. Hence, it is commercial transaction. Only this feature differentiates advertising from publicity.
4. **Persuasion of the buyers:** The advertisement must be capable persuading the buyers to purchase the goods advertised. It is an art of influencing the human action; the awakening of the desire to possess and possess one's product.
5. **Identifiable with the sponsor:** Advertisements are identifiable with their sponsor or originator. The producer or the dealer sponsors the advertisement campaign by employing a suitable media. He also bears the expenses connected with it.

4.2.4 Objectives of Advertising

1. **To Create Demand: -** Advertisement is used for introducing anew product in the market. New product needs introduction as potential customers have never used such product earlier. The advertisement prepares a ground for the new product. Most of the advertisement in cinema-halls or at radio and television serve this purpose.
2. **To Prepare Ground for New Product: -** The main objective of the advertisement is to create a favorable climate for maintaining or improving sales. Customers are reminded about the product and the brand. Advertisement may induce new customers to buy the product by informing them about its qualities since it is possible that some of the customers may change their brands. Thus advertisement may bring new areas and customers to the company's product thereby increasing the company's share in the total market.

3. **To Face the Competition:-** In modern days advertising is undertaken not only to inform the people about a product, but also to maintain and increase the demand of the product by weaning people away from rival products in the market. Under competitive conditions, advertisement helps to build up brand image and brand loyalty. When customers have developed brand loyalty, it becomes difficult for the middlemen to change.
4. **To Inform the Changes to the Customers: -** Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company. This increase the market receptiveness of the company's product. It helps the salesman to win customers easily.
5. **To create or Enhance Goodwill: -** The advertisement is made with the purpose of informing about the change to the consuming public. Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc., these must be informed to the public by the producer through advertisement. Such advertisements may also be used to maintain or improve sales.
6. **To Neutralise Competitor s Advertising: -** Advertising is also used to compete with or neutralise competitor's advertising. When competitors are adopting intensive advertising as their promotional strategy, it is reasonable to follow similar practices to neutralise their effects. It is essential for the manufacturer to create a different image of his product. Advertising helps to create product differentiation by the particular message it sends and the image it creates.
7. **To Bar New Entrants: -** Through long advertising a strongly built image helps to keep new entrants away. The advertisement builds up a certain monopoly for the product. The entrants find it difficult to enter. Whenever a new entrant plans for an investment in that field, he considers the existing market conditions. If he knows that the existing market is dominated by a few producers due to long standing advertisement effects, he may hesitate to make his investment.
8. **Link between Producer and Consumer: -** To conclude, advertising aims at benefiting the producer, educating the consumer and supplementing the salesman. Above all it is a link between the products and the consumer.

Activity 1

Collect various types of advertisements from newspaper and journals and analyse its objectives and list them

1. ....
2. ....
3. ....
4. ....
5. ....

4.2.5 Functions of Advertising

(A) Primary Functions:

1. **Increase in Sales: -** Advertisement increases sales of the product by securing greater consumption, attracting new buyers or introducing new uses for a commodity.
2. **Boost stocking: -** Persuasion of dealers to stock the goods is one of the functions of advertisement.
3. **Help in Sales: -** Advertisement helps the dealers (wholesalers and retailers) to sell the advertised product.
4. **More Per Capita use: -** Advertising is effectively used to increase the per capita use of the commodity by its constant repetition.
5. **Respectability: -** By advertisement the receptiveness of a new product or new model increases if producer has earned a name as a producer of good quality products.
6. **Insurance: -** Advertisement creates insurance for the manufacturers' business.
7. **Buyers Dependability: -** The buyer's dependability on well advertised goods is increased because he knows its quality.
8. **Diminishing Fluctuations: -** Advertisement helps to eliminate or lessen seasonal fluctuations.
9. **Brand Image and Brand Loyalty: -** Advertisement creates brand image and brand loyalty.
10. **Raising Standard of Living: -** Advertisement raises the standard of living of the public by instigating the desire to purchase better and qualitative things.

(B) Secondary Functions

1. **Encouraging Salesman: -** Advertisement encourages the salesman and lends them moral support in facing a difficult customer.
2. **Information: -** Necessary information's are furnished to salesman, dealers and customers about the product. The printed word is manufacturer's guarantee.
3. **Public Response: -** Advertisement creates a feeling among executives and administrative staff that they are working in a company having public response
4. **Sense of Security: -** The workers of a company of well advertised goods feel themselves secure. It means steady work and consequent prosperity. Their jobs are permanent and are likely to be promoted.

5. **Better Employees: -** Advertisement helps the company to secure better employees-executives, salesmen and workers.
6. **Help to all: -** The above functions of advertisement help the producer, salesman, dealer and consumer.

4.2.6 Advantages to the Retailers

The following are some of the benefits of advertising available to the retailers.

1. **Increase the turnover:** Advertising quickness the turnover of the retailer. Quick turnover, in its turn reduces the risk of dead stock and brings down the proportionate expenses in overhead charges.
2. **Publicity:** Advertising not only offers publicity to the product but also to the retailers. In fact, the retailer himself is known to public only through the manufacture's advertising. In many cases, the names of the retailers are also advertised by the producers.
3. **Minimum efforts:** Since advertising creates new wants, the retailer need not take many efforts to push up the sales of the product. Generally, retailers employ no salesman who goes outside the shops to procure orders. But advertising goes out no his behalf and attract more customers towards his shop.
4. **Risk of price wars:** Advertising enables the producer to control both wholesale and retail prices. Therefore, the retailers need not afraid of unfair competition and price wars. This avoids losses to the retailer through the fluctuations in prices.
5. **Sales forecasting:** The retailer can also forecast the sales for the current year and also plan his stock accordingly. Proper sales forecasting brings more profits to him.
6. **Strengthening of goodwill:** The reputation created to the product is also shared by the retailer who deals in it. Well advertised product adds prestige to the retailers and he incurs no additional expenditure for this.

Advantages to the Consumers

Modern advertising brings a number of benefits to the consumers also. The following are the chief benefits of advertising to the consumers.

1. **Quality of the product:** Generally, well advertised goods are better in quality. If the goods are not upto the quality the consumers shall switch over to some other product. Therefore, the manufacturer is compelled to maintain the quality of the product advertised. The consumers are ultimately benefited by the quality of the product.
2. **Selection of Products:** The existence of different varieties of products, their prices, and their peculiar qualities are made known to the consumers

only through advertising. The consumer can select the product best suited to his tastes, requirements and his purse.

3. **Information service:** Advertising also acts as an information service and helps him in intelligent buying. The consumer can exactly know where the product is available and at what price. The consumer, therefore, can make an intelligent buying without taking any extra efforts. Intelligent buying leads to the satisfaction of wants more effectively and economically.
4. **Fair prices:** Modern advertising stabilises the price of the products. In majority of the cases, the retail prices are also advertised so as to make the buyer aware of the prices. Thus, exploitation of consumers by the retailers is considerably avoided.
5. **Mail order business:** Advertising also makes it possible to sell direct to the consumers by mail order business. Therefore, the consumers in the rural areas and interior parts of the country can also enjoy the comforts and luxuries available only in cities. This makes the life of the village consumers easier, comfortable and pleasant. Besides purchasing directly from the producer is economical to the consumers.

Advantages to the Society

The following are the benefits of advertising to the community in general.

1. **Educative value:** Advertising has educative value. It educates the public and enables them to make an intelligent buying. It also makes it possible for enjoyment of new amenities and comfort goods.
2. **Stimulation of investment:** Mass advertising always leads to mass scale production and distribution. Consequently business firms tend to grow. In the modern days, most of the undertakings are organised in the form of joint stock companies so as to mobilise the savings of the public and thereby carry on large scale production. Even private firms and private companies are converted into public companies. This stimulates the investment habit of the community.
3. **Employment opportunities:** It is already stated that advertising creates mass demand and leads to large scale production. Large scale production, in its turn creates more employment opportunities. It also assures employment opportunities for professional artists.

Thus advertising is a boom both to the producer and to the consumer in particular and also to the community in general. It helps to expand economic activities, stabilises the national economy and raises the standard of living of the community. Revolutionary changes were, in fact, brought out by advertising in the sphere of social and economic organisations.

Activity 2

List the advantages of advertisement which you seen or collected from newspaper.

1. ....
2. ....
3. ....
4. ....
5. ....

4.2.7 Characteristics of Good Advertisement

The success of advertisement depends very much upon the copy of advertisement. The main aim of the advertisement is to attract the customer and create an urge to possess that product. If the advertisement does not fulfill this objective, the expensive advertisements are useless. Hence, the advertisement copy should be drafted very carefully.

The person who drafts the advertisement copy must be thoroughly acquainted with the mental process. He should be imaginative enough to think of words and patterns which would produce the desired effect on the prospective customer.An effective copy of advertisement should posses the following characteristics, qualities or values:

1) Attention Value.
2) Suggestive Value,
3) Memorising Value
4) Conviction Value.
5) Sentimental appeal Value,
6) Educational Value
7) Instinctive Value.

1) **Attention Value**- an Advertisement copy must attract the attention of the potential consumers. If it fails in this mission, the money and efforts go waste, for everything else follows this. The copy should be drafted, planned and displayed so ingeniously that it may compel even the most casual reader to notice it and read it with interest. It should be designed in such an attractive manner that it catches the eye. Following devices can be used to make the copy attractive.
   (i) Use of pictures, photographs or sketches to reveal a great deal about the product.
   (ii) Use of display types, i.e,.appropriate heading in attracting types;
   (iii) Attractive borders etc., can also be used to separate an advertisement copy from the rest of the setting and to compel the reader to focus his attention on it:

(i) Price quotation being advertised is quite low; the display should be at an appropriate place in the copy.

(ii) Reply coupons may be inserted in an advertisement to attract the attention of the readers.

2. **Suggestive Value –** The next quality of an advertisement should be to offer suggestion about the use and the utility of the product. This can be done if crisp and pointed but simple slogans and suggestions are devised to bring home to the reader the utility of the product in everyday situation. The repeated use of suggestion, a command or slogan can do the trick.
3. **Memorising Value -** The copy of advertisement should be so drafted and laid out that the product sticks to the memory of the individual reader. Repetition of advertisement is an effective method of creating memorising value for the copy. Use of trade mark or brand name should be repeated very often. Lux, Dalda, Asprin, Ponds, Vim, Surf, etc. have become household words through repeated advertisements of memorising value.
4. **Conviction Value** – An advertisement copy a proven effective when the suggestion contained in it is backed by convincing arguments. In it the advertiser must avoid the two extremes: it should neither be plain notice nor should it use high flower language. By emphasising the outstanding feature of the product an ideal copy should make an appeal to reason so that the consumer acting on the advertisements may go in for it with confidence and firm belief in its utility and superiority over competitive products. Examples of copies emphasizing conviction value may be found in advertisement of Colgate dental cream saying Stop bad breath with Colgate while you fight tooth decay all day
5. **Sentimental Value**- Sentiments reflecting the personal feelings and attitudes of individuals towards various things indicate reactions of a person infamous or against a particular product. The advertiser should make a sincere attempt to make an appeal to the sentiments of as many buyers as possible. It is more important where advertisements are directed towards the educated and cultured sections of the community.
6. **Educational Value** - A Good copy of advertisements educates the general public about the uses of the new products or the new uses of the same product. It increases the demand of the product. It creates new habits among people by offering new tempting products to them. It helps creating new markets. Thus a good copy of advertisement possesses educative value.
7. **Instinctive Appeal Value** – Instincts are the main springs of human thoughts and actions. Instincts are the underlying forces which compel the men to act in certain ways. A good copy of advertisement must induce, persuade and motivate the people to think well of a product and to take to its use. Generally speaking, the following are the basic instincts of the consumers.

(i) Self-preservation Instinct - The sale of product like medicine, clothes, etc., may be promoted by appeal to our anxiety to preserve our person, our wealth, our family and our belongings for example, insurance are advertised by appeal to this instinct.

(ii) Hoarding Instinct – Banking institutions, insurance companies or the Government Savings Organisaion make an appeal to the hoarding instinct Slogans like Up and Up Go your Savings' are used for this purpose.

(iii) Parental Instinct – The parental instinct takes the form of love and affection for the children. Those who deal in children's requirement like toys, baby goods, etc., lay upon the motherly feelings of women or the parental sentiment of men through their advertisement copies.

   (i) Instinct for Self –display – An advertisement copy drafted for dresses, readymade clothing, etc., must be directed towards the aesthetic sense of the people by showing happy and likeable people in dresses that are being advertised.

   (ii) Something for nothing Instinct – Everybody has an instinct to get something without paying for it. An advertisement copy that contains the offer of a prize or a gift is likely to tempt many of the customers. For example, this instinct is widely used by lottery ticket sellers.

The above qualities should be incorporated in an advertisement copy to make it an ideal advertisement.

Activity 3

Describe the characteristic of advertisements which you remember and note down.

1. ....

2. ....

3. ....

4. ....

5. ....

4.2.8 Objections of Advertisement

1) Economic objections against advertising

The criticisms leveled against modern advertising on economic grounds can be summarised as follows:

1. **Advertising creates monopolistic tendencies:** It is argued that skillful and forceful advertising tends to create semi-monopolies particularly for branded goods. Their plea is that the advertisements create new demands so that one product is preferred to the exclusion of others.

But this allegation is baseless. Monopoly is not possible in a competitive market. Advertising stimulates competition. Very often many small advertisers complete successfully against the bigger traders.

2. **Advertising is unproductive:** It is often argued that advertising is unproductive since it does not produce any tangible products.

   This argument is also worthless. All productive work need not result in tangible goods. Effective advertisement creates demand for the product and thereby stimulates production. It is indeed a valuable service to the producer. Thus, advertising is an economic necessity.

3. **Advertising compels the consumers to buy:** Some people argue that advertising takes advantage of the emotion of the consumers and compel them to buy things which they cannot afford or things which are beyond their buying capacity.

   It is true that advertising generates a desire to buy. But no physical pressure is exerted by it on the consumers. In reality, it educates the consumers and helps them to make an intelligent buying.

4. **Advertising leads to higher cost of goods:** Product generously spend huge money on advertising. This ultimately increases the cost of goods and the consumer has to bear the burden of huge expenditure. Thus, the consumers are heavily taxed due to the heavy expenditure on advertising.

   This argument also found to be untruthful. It is no doubt that sometimes huge expenditure is incurred on advertisements. But the benefits derived from such advertisements cannot be denied. Advertisements correspondingly increase the sales which ultimately lead to an increase in the production. Increased production lowers the unit cost and so the consumers are not, in fact, exploited. But advertisements bring a cut in the price of the goods and services.

5. **Advertising just takes business from one concern and gives it to another:** It is also argued that advertisement creates no new demand for the products. It simply takes away the business of one concern and gives it to another. In other words, advertising helps to shift the demand from one product in favour of another. Thus, it generates no new demand for a product.

   The critics who make this allegation assume that the purchasing power of the community is static. But in fact purchasing power is not a static concept. It is unrestricted and unlimited. Besides tastes, styles, standards and incomes of the people are subjects to constant change. Hence, this criticism is based upon a false notion and cannot be upheld.

6. **Advertising is unnecessary:** Some critics‘ plea that advertisement is unnecessary. Hence it is a waste. They also cite the example of Russian economy where there is no place for advertising. Russians do not advertise but they put that money into goods.

This allegation shall not also hold good. In a competitive economy like ours there is a possibility of choice-choosing a product in preference to the other. In the Russian economy choice is restricted and limited. Therefore, certain goods which need no advertising. This argument shall hold good only in case of basic necessaries or good which have no substitutes. But in case of other products which have many substitutes advertising is a must. Thus, advertising is necessary and is not a waste.

2) Social objections against advertising:

The criticism leveled against advertising on social grounds can be summarised as follows:

1. **Advertising is an exaggeration of facts:** Most of the advertisements are misleading and untrue. They contain all claims and exaggeration of facts. Such exaggerated advertising amounts to swindling. So critics say that advertising has the effect of deceiving the society and must be condemned.

   This allegation is also baseless. It is no doubt that advertisement is often used by dishonest persons to sell worthless products. But they are only short lived. Consumers who buy such products shall soon find out that the product is not up to the standard and so shift their preference to some other product. The advertiser in the long run cannot enjoy the benefits of advertising by merely misrepresenting the facts about the product.

2. **Advertising influences the press:** Advertising, although make newspaper cheaper, it enables advertiser to influence the press so that the news may by so drafted to please the advertisers. Thus, freedom of press is adversely affected by influenced advertisers.

   It is true that advertising constitutes a major source of revenue for the very existence of the newspapers. In reality the press is able to maintain its freedom only because of advertising. In the recent past, many Governments, the newspapers were able to maintain their freedom only because of the business advertisements. The newspapers are not depending on the advertisers but the advertisers in fact depend on the newspapers without which their very existence itself shall be doomed.

3. **Advertising contains emotions:** It is also argued that advertising contains outraging sentiments, exciting emotions, rude poses of fair sex and lower down the morale of the younger generation.

   This criticism is not absolutely baseless but contains an element of truth. It is true that the reader or the listeners are induced by highly emotionalized appeals. But emotions and illusions are necessaries for life. Emotions and illusions constitute a part of motivation that stimulates enjoyment. Thus, advertising has no demoralising effect under all circumstances.

3) Ethical objections against advertising

Advertising is also criticized on ethical grounds. The following are some of the criticisms leveled on ethical grounds.

1. Some of the advertisements are offensive to public decency. They are vulgar, silly and full of appeals to sex.
2. Some advertisements induce the readers to use or consume goods which are injurious their health.
3. Advertising causes people to want things which they cannot afford. This makes a section of the community to remain discontented.

   These allegations are partly true. After all advertising is only an instrument like any other instrument. Therefore, advertising in itself is neither good nor bad. It is just like a sword and its social and ethical significance depends on the manner in which it is used. Unsocial and unethical advertising can be curbed by effectively controlling them.

Activity 4

Collect various types of advertisements from newspaper and journals and analyse its negative impact on consumer (youngster and low income group) and society.

1. ....
2. ....
3. ....
4. ....
5. ....

4.2.9 Advertising Media

Once the advertiser has finalised the object of the campaign, the next task before him is the selection of a proper medium or a group of media. Proper selection of the media enables the advertiser to achieve the desired results. Hence, it is vital for the success of an advertising campaign.

Meaning of the Advertising Medium: The advertising medium refers to the means through which the advertiser can convey his message to audience. Some of the notable definitions are given below.

Definition of Brennan: Mr.Brennan in his book, –Advertising Media writes as follows: –The term media embraces each and every method, the advertiser has at his command to carry his message to the public .

Definition of M.Tyres: According to Mr.M.Tyres, advertising media are the Physical means whereby a manufacturer of goods or utilities or a provider of services tells the consumer about his product or service .

Thus, advertising media can be defined as the means or devices that carry the message of the advertiser.

4.2.10 Objectives of Advertising Media:

An advertising medium is any object or device that carries the advertising message.

It should be capable of accomplishing following three objectives:

(i) to reach the largest number of people possible.

(ii) To gain their attention.

(iii) To be less expensive.

The character of the medium is largely determined on the objective and factual basis such as whether the coverage of the medium should be national, regional or only local.

4.2.11 Factors governing the selection of the media

Selection of a suitable medium is really a complex problem to the advertiser. There are a number of kinds and classes of media in the modern advertising. Hence, the selection of media means not only the choice of the right classes of media out also the individual medium within the class or classes. Besides there is no single medium that is best suited for all advertisers. In reality, a medium which is best suited for one may be almost useless for another. The medium once employed for advertising a particular product itself may be found unsuited subsequently. Therefore, the right choice of a medium calls for a careful analysis. If the medium is unsuited the whole amount of money spent on the advertising campaign shall turn to be a waste.

The advertiser, therefore, while selecting the media, should consider the following factors:

1. **Class of the audience:** Firstly, the advertiser must note the class of the audience to be influenced by the medium. The audience can be classified into different groups by their social status, age, income, educational standard, religion, cultural interests. They may also be divided into men and women.
2. **Extent of coverage:** Secondly, the advertiser must consider the number of audience to be covered by the medium. Every media has a general as well as an effective circulation. The general circulation is made up of the total number of people who read or subscribe to the media. The effective circulation is the number prospective customers who read it and the number of those who influences sales, though they may not buy for themselves. Effective circulation must be considered while estimating the number of people to be covered. The extent to which the medium reaches the same audience as that covered by some other media i.e., the percentage of over-lapping must also be taken into account.
3. **Nature of the product:** Nature of the product itself is a principal factor governing the selection of the medium. Products can be classified into various kinds – consumer's products and manufacturer's products etc.
4. **Nature of the competition:** The nature of the competition exerts greater influence of the selection of the media. If the competition is stiff utmost care

is needed in the selection of medium and a larger advertising budget is also required. In many cases where the advertising copy is similar or the choice of the media solely determines the effectiveness of the campaign as compared with that of the other competitors.

5. **Reputation of the medium:** Newspapers and magazines can offer a beautiful illustration for the reputation of the media. There are a few newspapers and magazines which have international reputation with a high readership.

   Advertisements in such magazines and newspapers are generally recognised and believed as true. Such advertisements also add prestige to the product.

6. **Cost of the media:** Cost of the medium in most cases, is an important factor in the selection of the medium. Advertisements in certain media are expensive. For instance, TV and Radio advertisements. Magazines and newspaper advertisements are generally considered as less expensive. Yet, certain magazines and newspapers, having larger circulation and high reputation charge higher rates. The rates also differ depending upon the space occupied and the preferential positions. The first page of a newspaper is rarely missed by the reader. Hence they have more attention value, than the advertisements presented anywhere inside the newspaper.

7. **Time and location of buying decisions:** The location of the audience and the time by which it should reach them must also be looked into. This consideration also enables the advertiser to keep his retail outlets in the proximity of the customers.

Tyes Of Media

(a) Press Advertising	(b) Outdoor Or Mural Advertising	(c) Direct Mail Advertising	(d) Miscellaneous Advertising
1. Newspapers	1. Posters	1. Circular	1. Radio and Television
2. Magazines and Journals	2. Boards	2. Business Reply Envelopes and cards	2. Cinema and Cinema slides
	3. Electric Display	3. Price lists	3. Fairs and exhibitions
	4. Sand witch Board advertising	4. Catalogue	4. Loud speakers
	5. Bus, trams and train advertising	5. Leaflets and Folders	5. Demonstration
	6. Sky advertising	6. Booklets	6. Posts and Telegraphs Dept.
	7. Others	7. Novelty	
		8. Personal letters	
		9. Others	

NOTES

1) Direct Media – Direct method of advertising refers to such methods used by the advertiser with which he could establish a direct contact with the prospective consumers. Direct mail is an example of this.
2) Indirect Media – Indirect method involves the use of a hired agency for spreading the information. Most of the media. E.g. press publicity, cinema, etc, are indirect in nature.

Commonly Used Media

1) Press Publicity - This is the most popular method of publicity today. Newspapers and magazines have become a part of the cultural and political life of the people. Press publicity takes two forms: Newspapers and magazines.
2) News Papers – Newspapers are read largely for their news value because they are most appropriate for announcing new products and new development of existing products. Because of their frequency of publication, they are well suited to Opportunity markets ‘.

Kinds Of Press Advertisements:

(i) Classified Advertisements – These are advertisements having common themes such as matrimonial, situations wanted, to let, for sale, etc., these are given under group headings. They are quite cheap.

(ii) General Advertisements – These are usual advertisements which are published in different places creating some kind of identity.

(iii) Teaser Advertisements – This is comparatively a new form of advertising. A series of advertisements without any sales message are published over a number of days in the same place in a newspaper. This creates an interest among readers to follow the series until the last advertisement appears. Teaser method is found highly effective.

(iv) News type Advertisements – From the outward appearance this would simply look like a news item. The word advertisement is added at the end of the news to denote the purpose. Most of the speeches of the

Chairmen of companies are given on this basis. For example, Hamdard’s Roohafza and Charminar Cigarettes.

(c) Magazines – Magazines and journals also offer good facility because magazines are read leisurely when the reader is mentally prepared to receive advertisements.

Kinds of Magazines:

(iii) General Magazines – In these the content is meant for general appeal. E.g. India Today, the Week etc.

(iv) Specialized Magazines – These cater to a readership with clearly defined specific interest. For example. Capital Market, Business India for business people, Famine for women etc.,

(v) Special Issues such as Annuals – Directories are special types of publications which may or may not have wide coverage of varied interests, e.g. telephone directories.

(i) Direct – The message is directly addressed to the prospective customers.

(ii) Flexible - The message could be changed to suit different conditions.

(iii) Economical - Advertising could be termed according to the wishes of the advertiser. It is economical.

(iv) Personal Contact - The greatest advantage of this method is its capacity to create and maintain personal contact.

Mailing List:

The foremost job in such a kind of advertising is the preparation of a mailing list, which should include only those who are able and like to respond to the advertisement.

Sources of Mailing List:

(i) Present and past customers

(ii) Salesmen.

(iii) Directories such as telephone directory, voters list, etc.,

(iv) Government records such as income tax list, birth registration.

(v) Records of membership kept by civil and social organizations.

The final step in this method of advertisement is the distribution of the printed message. This can be done by mailing inside packages through retail stores.

Activity 5

Could you note down some company advertisements and its media through which it is advertised.

1. ....

2. ....

3. ....

4. ....

5. ....

4.2.12 Advertising Agency

Meaning and Definition of Advertising Agency

An advertising agency can be briefly defined as an organisation formed for rendering services to advertisers such as preparing the layout for advertisements getting the block made for layouts, getting the advertisements made through suitable media, undertaking the market research etc.

Due to the emergence of a number of literatures of the subject of advertising various definitions were also put forth by the scholars. Some of the notable definitions are reproduced below:

Definition of F.R.Gamble: F.R. Gamble in his popular book – What Advertising Agencies Are ? – What they do and how they do it? Writes as follows: – Advertising agency is an independent business organisation composed of creative and business people, who develop, prepare and place, advertising in advertising media for the sellers seeking to find customers for their goods and services . Definition of Cundiff and still: – An advertising agency is a group of experts on various phases of advertising and related marketing problems. In its operations, it resembles other organisations providing expert assistance on specialised business problems .

Meaning

An Advertising agency is an organisation whose business consists in the acquisition of the right to use space of time in advertising media and the administration of behalf of the advertisers of advertising appropriations made by them. It renders advice and creative services for its clients. It does not sell any tangible products, but sells creative talents and past experience. Thus it is an organisation specially created for rendering services in advertising.

4.2.13 Need for an Advertising Agency

Manufacturers cannot look after all the promotional activities especially under the principle of specialisation. Organisations with adequate financial resources set up a separate department for this purpose. Such an arrangement would be beyond the reach of medium or small scale producers. These would hire some specialised people. Advertising is one such field where manufacturers have two options to conduct their advertising for themselves or to hand over the job to a specialist. Advertising Agency undertakes the specialised job of advertising for and on behalf of others. It has specialised skills and experience that a manufacturer cannot duplicate except at a considerable expense. Even large firms have started depending on advertising agencies because these in the market . Advertising is a complicated affair and it success primarily depends upon constant advertisement research and media research, etc.

Most of the present day advertising is done by advertising agencies. No manufacturer in fact, is prevented from advertising himself, without the aid of an outside agency. But for them the need for appointing an agency arises because of the following reasons and benefits.

1. **Reduction in the cost of advertising:** The remuneration paid to the agency which is about 15% of the cost of producing and executing the advertisement may appear to increase the total cost of advertisement. But in reality, it is not so. If a firm itself undertakes the advertising job it has to maintain specialised staff. Besides considerable effort and time should be spared. All these finally, read to higher overheads and in fact many time more than the commission payable to the advertising agencies. Thus, the advertising agents help a lot in reducing the advertisement costs.
2. **Provision of expert services:** An advertising agency can appoint expert artists, copy writers and others competent for the job. For it advertising is a routine job and so, it can afford to pay for it. By employing the advertising agency the advertisers can avail the benefit of the skill, experience and knowledge of the agency at a comparatively cheaper cost.
3. **Selection of a suitable media:** Very often the advertisers are not a position to form a rational judgment in the selection of a suitable media. The advertising agent can help the advertiser in the selection of the best media. Proper selection of the media adds effectiveness to the advertising campaign.
4. **Advertisement in the appropriate time:** Advertising agents usually make contracts with the media owners for the use of space or time required on a long term basis. So that enough space or time is at their disposal and they can publish the advertisement readily whenever wanted. But the advertiser has to wait for sometime till the space is provided in the newspaper or the time is provided in the broadcasting. Further the agent can make adjustments in their programme and give priority to any particular advertiser according to their need. Hence, the advertisement can be published at the appropriate time.
5. **Quick preparation of the advertisement copy:** Advertising agents employ artists regularly to draw the advertisement copy. Therefore, whenever a job of advertising is entrusted, the agent can make quick arrangements for the early preparation of the drawings, layouts and get the plates made. But the advertiser has to spare more time and money for approaching the experts in this connection.
6. **Provision of other services:** Modern advertising agencies offer different types of services such as window dressing, market research, sales promotion etc. These take a good amount of time if the advertiser himself does them through his own organisation.

Thus, economy is the principal factor which justifies the need and importance of advertising agencies in the modern advertising system.

Advertising Agency Services

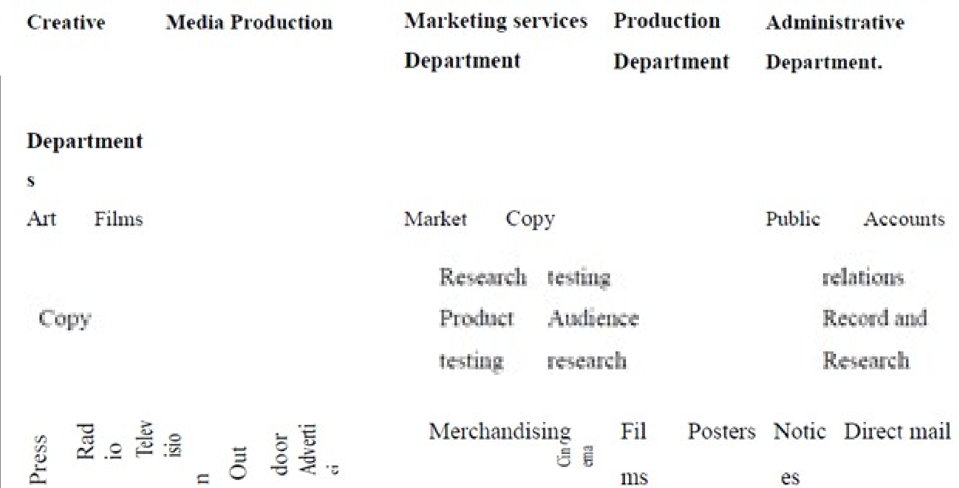


Figure 4.2.1 Advertising Agency Services

In the beginning advertisement agents were mere agents whose main job was to sell space in a medium. But today they have a pivotal position in the marketing process and sometimes called marketing agents‘. With ever increasing competition, they have extended the range of services they could render. This is evident from the chart 25.1 of the multifarious activities undertaken by such agents.

4.2.14 Selection of Advertising Agency:

The selection of an advertising agency is not an easy task. The advertiser decides to use an agency to secure additional talent to help him plan and carry out an advertising programme. The problem of selection is one of the evaluating the skills and capacities of an agency. There is no standard yardstick to measure the efficiency of such an agency. The following points should be considered while choosing an advertising agency.

(i) Financial soundness
(ii) General reputation.
(iii) Facilities and abilities available.
(iv) Size and abilities available
(v) Size and adequacy of the staff.
(vi) Basis of remuneration.
(vii) Relationship they maintain with advertiser.
(viii) Products advertised.
(ix) Availability
(x) Relation with media – owners.

Whatever be the basis of the selection, the relationship between the advertiser and the agency should be cordial after an agency is selected. The success of an advertising programme depends much on the mutual trust, confidence and understanding between the two. The advertising agency should not be mere‘ yes man‘ of the advertiser. It should be capable of giving him objective advice.

4.2.15 Services of an Advertising Agency

The services of an advertising agency in general can be summarised as follows:

1. It makes the advertisements pleasant and serves the purpose.
2. It can get the advertisements published at the appropriate times.
3. It can help the advertiser in the preparation of the advertising budget.
4. It can free the advertiser from the botheration of contacting the media owners of all types as and when necessary.
5. It can do market research for the advertiser at a lesser cost.
6. It can also help the advertiser in designing the trade mark, packages and labels and wrappers for the goods to be sold. It can do all types of jobs connected with the printing work.
7. It can do sales promotion work.
8. It can design window displays and arrange for a systematic change in the arrangement of the things in the windows from time to time.

4.2.16 Advantages of the Advertising Agency:

1. For small advertisers – It is more profitable to use services of an agency than to keep a separate publicity department.
2. Expert Advice – Being a specialised agency it could offer expert advice.
3. Obtaining space on easy terms – Because of the close association with media owners it can obtain space at competitive rates.
4. Employment – An advertising agency provides employment opportunities to artists and similar skilled people.
5. Other Help – Besides advertising agency offers help in other marketing activities such as marketing research, test marketing, etc., members belonging to a profession such as Solicitors, Advocates, Physicians, Auditors and the like are not allowed to advertise due to custom and professional etiquette and in accordance with the rules and regulations.

Activity 6

Collect the various advertising agencies name from the advertisement (cornor side) and note down their name and respective advertisement product and medium.

1. ....
2. ....

3. ....
4. ....
5. ....

Self Evaluating Exercise

1. What do you mean by Advertisement? Discuss the elements and functions of Advertisement.
2. The money spends on advertising a product is an investment and is not waste . Do you agree? Give reasons for your answer.
3. All advertisement is a social waste – Discuss
4. What are the different kinds of advertising? Describe them briefly
5. What do you meant by Advertising Media? What are the factors governing the selection of the media?
6. Describe the types of advertising media. Discuss their advantages and disadvantages.

4.3 PROMOTION

4.3.1 Meaning and Definition of Promotion

There are two ways by which sales volume can be increased 1) having an efficient sales organisation 2) ability to undertake all the sales promotional activities. To an efficient sales organisation the sales manager has to appoint the most competent staff, train them as and when necessary and remunerate them with suitable incentives. These are done on the internal side. These are steps taken within the organisation itself to keep the sales force efficient and enthusiastic. The second way is to take all the external steps which will also help in the expansion of the sales volume. These external steps constitute promotion.

In view of the several promotional tools available, defining the term sales promotion in exact terms is difficult. However, authorities have made an attempt to formulate suitable definitions for this term and a few notes worthy definitions are given below:

Definition of J.Stanton: Promotion is an exercise of information, persuasion and influence .

Definition of Philip Kotler: Promotion encompasses all the tools in the marketing mix whose major role is persuasive communication .

Definition of the American Marketing Association: The Definition Committee defines the terms Sales Promotion as those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as displays, shows and expositions, demonstration and various non- recurrent selling efforts not in the ordinary routine .

Definition of Roger A.Strong: In the words of Roger A.Strong it includes – all forms of sponsored communication apart from activities associated with personal selling. It, thus includes trade shows and exhibits, coupon, sampling, premiums, trade allowances, sales and dealer incentives, sent of packs, consumer activities, rebates, point of purchase material and direct mail .

Thus, promotion is concerned with the creation application and dissemination of materials selling. In other words sales promotion is the plus ingredient in the marketing mix whereas advertising and personal selling are essential as well as the basic ingredients in the marketing mix.

Promotion, Sales Promotion and Selling

The term promotion, sales promotion and selling are often used synonymously. These three terms, of course are interrelated but differ widely in their connotation. Selling is a narrow term and includes personal and impersonal processes of assisting or persuading a prospective customer to buy a commodity or service whereas promotion is in inclusive term representing the broad field of advertising, personal selling and sales promotion.

Similarly the term sales promotion and promotion cannot be taken to mean the same as are commonly used. Promotion is a very wide term including advertising, personal selling, sales promotion and other promotional tools that can be devised to reach the goals of the sales programme. Thus, sales promotion is a part of the promotion is a part of the promotional activities of the business undertakings. Hence the scope of the expression is confined to selling activities alone.

4.3.2 Importance of Promotional Activities:

1) **Sale of the goods in Imperfect markets** – Every market is imperfect market. In the imperfect market conditions, the product cannot be sold easily only on the basis of price differentiation. It is the promotional activity that provides information about the differences, characteristics and the multiuse of the products of various competitors in the market. The customer is attracted to purchase the goods on the basis of such information. Thus promotional activities are necessary for selling the product successfully.
2) **Filling the Gap Between producers and Consumers** – Due to prevalent market condition, mass selling is quite impossible without promotional activities. The distance between producers and consumers has so widened in present days that to get them acquainted with the product, promotional activities are necessary.
3) **Facing Intense Competition** – The present intense competition necessitated the sales promotion activities. When a manufacturer increases his promotional spending and adapts aggressive strategy in creating a brand image, others are also forced to follow the suit. This leads to promotion – war.

4) **Large Scale Selling** – Sales promotion is the result of large scale production. It can be achieved only appropriate methods of large scale selling. Large scale selling is possible with the help of promotional activities.
5) **Higher Standard of Living** – Thus promotional activities increase the standard of living by providing the better goods at a lower rate due to large scale production and selling.
6) **More Employment** – As the promotional activities cannot be performed without the help of an effective sales force and the specialists in the field, employment opportunities are opened for a large number of people.
7) **Increased Trade Pressures** – The growth of large scale retailer, such as super markets, chain stores, etc., has brought greater pressure on manufacturers for support and allowance. In order to aid the retailers and also to ensure their share of shelf space many manufacturers have taken to sales promotion activities.
8) **Effective Sales Support** – Sales promotion policies supplement the efforts of personal and impersonal salesmanship. Good sales promotion materials make the salesman's effort more productive. Promotion reduces his time spent in prospecting and reduces the turndowns.
9) **Increased Speed of Produce Acceptance** – Most of the sales promotion devices such as contests, premium coupons, etc. can be used faster than the other promotion methods such as advertisement.

4.3.3 The Purposes of Promotion

There are three specific purposes of promotion:

To Communicate,

To Convince, and

To compete

It is not enough merely to communicate. Ideas must be convincing so that action (purchase) would follow. In other words, distribution of information should be capable of producing marketing result.

A good product, an efficient channel, and appropriate price are not enough by themselves. Communication and convincing elements should supplement to offer contrasts to the efforts of competitors. It may even be stated that the competitive characteristic of promotion defines its vital role in marketing strategy.

4.3.4 Objectives of Promotion

Communication is a necessary element in everyday and in every walk of life. People communicate for many reasons. A dynamic society cannot be there without sufficient modes of communication. Promotion is the mode of communication adopted by business community for achieving certain specific objectives. From the point of

view of a seller such communications may become necessary to modify consumer behaviour and thoughts and/or to reinforce existing behaviour of consumers.

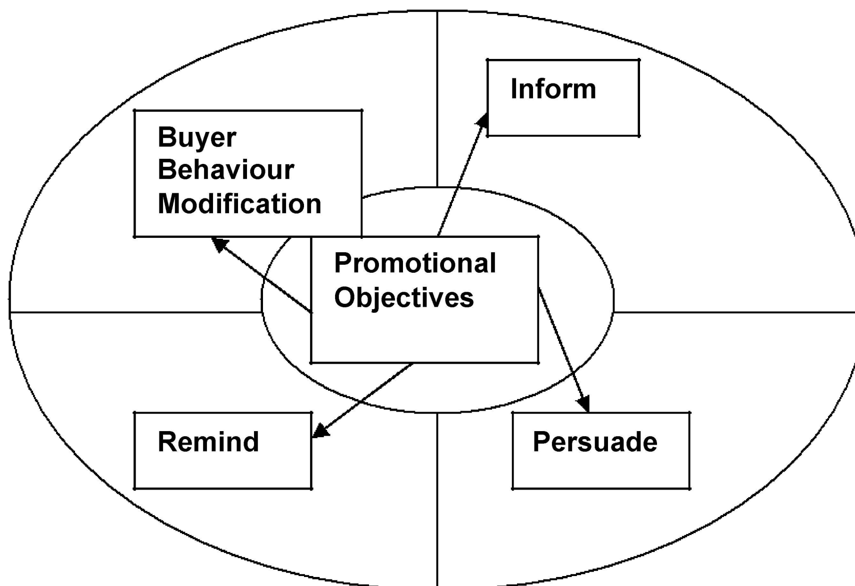


Figure 4.3.1

4.3.5 Kinds of Promotion

1. **Informative promotion**. All promotions, essentially, are designed to inform the target market about the firm's offerings, *Informative promotion* is more prevalent during early stages of product life cycle. It is a necessary ingredient for creating primary demand. Such type of promotion is needed ingredient for creating primary demand. Such type of promotion is needed as the consumers make their purchases only if they are convinced about the product benefits. This could be done only with the help of communications and such communications are usually information-oriented and not sales oriented. Naturally, this will help the consumer in his intelligent buying.
2. **Persuasive Promotion**. The basic purpose of promotion is to persuade people to buy. But many do not accept this goal, as it would involve high-pressure selling but essence of all promotion is persuasion. It is designed to stimulate purchase and to create a positive image in order to influence long-term buyer behaviour. Except on certain occasion promotion is not intended to create immediate response. Moreover, when the product enters growth stage persuasion becomes the primary goal of any kind of promotion.
3. **Reminder Promotion**. This goal is adopted when the product reaches maturity stage. Insisting and emphasizing brand names and product features in competitive terms is the central aim of reminder promotion. It simply serves as a memory jogger'.

4. **Buyer Behaviour Modifications**. The effect of promotion is measured through the modification in consumer behaviour. The repeated advertisements and constant personal selling methods are designed to achieve this goal.

4.3.6 Approaches to Promotion

The objectives of promotion require the target customer to pass through a series of stages that lead to purchase behaviour. One is the AID concept: to create Attention, Interest, Desire and finally leading to Action. These are the logical stages through which promotion methods act. Simultaneously, these stages create corresponding changes in Hierarchy of effects' viz.

Cognitive ———————— message received and interpreted.

Affective ———————— formulation of product image.

Conative ———————— motivation and purchase

These two effects, that are mutually dependent, could be combined as follows:

Comparision of AIDA and Hierarchy concepts

Aida concept	Attention	Interest Desire	Action
Hierarchy of effects	Awareness Knowledge	Liking Preference	Conviction Purchase
Stages	Cognitive	Affective	Conative

Source: Carl McDaniel jr., Marketing : An Integrated Approach.

This approach is called – Three – Stage Approach . It suggests that promotional effectiveness can be measured in terms of people moving from one stage to the next.

4.3.7 Sales Promotion

A number of leading marketers and advertising agencies have taken up several sales promotion methods in their bid to capture a larger market share. Sales promotion activities are essentially aimed at demand creation. These are undertaken in addition to the basic methods of demand creation through advertising and personal selling. Sales promotional activities gained importance only after 1950. The order of evolution appears to be personal selling, advertising and sales promotion. Formulation of sales promotion policies is a management function and generally vests with the top management of a company.

4.3.8 Objectives of Sales Promotion

Sales promotion is a vital bridge or a connecting link removing the gap between personal selling and advertising. Besides, the sales promotion activities are undertaken with the following objectives.

1. To increase sales directly by publicity through the media which are complementary to press and poster advertising.
2. To disseminate information through salesmen, dealers etc., so as to ensure the product getting into satisfactory use by the ultimate consumers.
3. To attract the prospective buyers towards the product and to induce them to buy the product at the point of purchase.
4. To enable the salesmen to achieve more sales in their territory in preference to another.
5. To ensure the co-operation of the retailers to sell one brand in preference to another.
6. To face the competition from other effectively.
7. To check seasonal decline in the volume of sales.

4.3.9 Importance of Sales Promotion

In the modern times, the importance of sales promotion is increasing tremendously. The older concept saw sales promotion as an adhoc collection of sales tools to be used wherever necessary as direct short term sales stimulus. But in the recent years it is increasingly viewed as an important tool in its own right. Lakhs of rupees are being spent on sales promotional activities to attract the consumers in our country and also in other countries of the world. For instance, in U.S.A., promotion spending has increased twice as fast as that of advertising between 1969 and 1975. One estimate places 1976 expenditure on selected promotional activities that at 30 billion dollars as against 20.5 billion dollars for regular media advertising. These work out to about Rs.29,250 crores and Rs.19,987 crores respectively in the Indian Currency Exchange rates. Some large companies have also begun to appoint sales promotion managers to handle miscellaneous promotional tools. All these facts show that the importance of sales promotion activities is enlarging at a faster rate.

Limitations of sales promotion

The sales promotion devices, however, are not free from limitations. The important limitations are given below:

1. There is a feeling that such seasonal sales promotional activities are mainly intended to sell and inadequate product.
2. The discounts allowed to the dealers are not real because the prices are already inflated.
3. The life of the measures is very short. As soon as these concessions are withdrawn the demand shall also reduce.

Figure 4.3.2 Tools or Devices of Sales Promotion

Consumer Promotions	Trade Promotions	Sales Force Promotion
1. Sampling	1. Buying allowance or discount	1. Bonus
2. Coupons	2. Buy back allowance	2. Contest
3. Premiums or bonus	3. Free goods	3. Sales meetings conference etc
4. Money Refund offer	4. Display and advertising allowance	
5. Price off offer	5. Dealer listed promotion	
6. Contest or sweepstakes	6. Push Money or PM's	
7. Bonus Stamps	7. Sales Contest	
8. Demonstrations		

Activity 1.

Examine various tools of promotion used by Retailers (Department Stores and Super Market) in your area and note down its impact

1. ....

2. ....

3. ....

4.3.10 Causes for the Increase in the Sales Promotion Activities

There are a number of reasons, both internal and external for the growth of sales promotion activities.

1) Internal causes

The internal causes for the increased sales promotional activities are as follows:

1. **Promotion has become more acceptable:** There was a time when most of the managements were of the view that sales promotion has cheapen their brand. They also felt that it was only a short term stimulus. With professionalisation in the recent years, business undertakings show increased willingness to adopt sales promotion as an accepted marketing activity.
2. **Appointment of qualified executives:** As a result of managerial specialisation, leading companies have created new staff position and appointed more executives with specialised qualifications. They began to recognise the importance of the sales promotion manager in handling sales promotional tools.
3. **Expectation of quick returns:** Since promotional programmes are launched to obtain quicker results, there is a wide spread adoption of the technique every where. Moreover, these promotions also play a valuable role in enlisting the support from an over loaded sales force.

2) External forces

The various external causes are the following:

1. **Proliferation of brands :** The wide spread use of branding as a technique of identifying one's product from that of the competitors has lead to the proliferation or multiplication or growth of brands. Brands become less distinctive and opportunities to advertise the product features effectively are also reduced. So in order to ensure their share of the limited shelf space with the retailers the producers have taken sales promotion activities.
2. **Increased trade pressures:** The growth of super markets, chain stores and other large scale retailing institutions has brought greater pressure on the manufacturers for support and allowances. So in order to aid the retailers and also ensure their share of margin, manufactures have to undertake sales promotional activities.
3. **Promotion minded competitors:** When one manufacturer increases his promotional spending and adopts aggressive strategy in creating a brand image, other are also forced to follow suit. This leads to virtually a promotion war.
4. **Troublesome economic conditions :** During periods of recession, consumers are more responsive to promotional techniques such as rebates, bonus offer etc., and so sales promotion techniques are adopted in a wide spread manner to reduce their inventory and improve liquidity.

4.3.11 Types of Sales Promotion Programmes

Philip Kotler classifies sales promotional activities into three kinds namely.

1. Consumer promotion.
2. Trade promotion and
3. Sales force promotion.

1. Consumer promotion

Sale promotion directed towards consumers may be done either to increase the use of the product among the existing customers or to attract new customers or to retaliate against the competitor's sales activities. The various sales promotion methods at the consumer level are the following:

1. **Sampling:** This involves distribution of free samples. Sampling is an expensive but a powerful tool. Samples are offers of a free amount or trail of a product to the consumers. The sample may be delivered door to door, offered in a retail store, sent by mail, distributed at fairs or other places where public assemble, attached to another product or featured in an advertising offer. It is suitable for introducing new products like soap, tooth paste, cigarettes and other consumer goods particularly luxuries.

2. **Coupon:** A coupon is a certificate that entitles the consumer to a specified saving on the purchase of a specified product. These coupons are generally issued by the manufacturers either directly by mail or through the retailers. The retailers are reimbursed by the manufacturer for the value of the coupons redeemed and also paid a small percentage to cover the handling costs. This is a less expensive method. This form of consumer promotion is very popular in U.S.A. However, coupon presents some problem to the marketer. Many retailers are reluctant to shoulder this responsibility in view of the financial and accounting burden it places on them. Thus, the effectiveness of this kind of promotion is on the decline.

3. **Premium or bonus offer:** Premiums are actual products or services offered as an incentive to buy other products or services. It is generally offered to buyers who buy a specified amount of a product or a special pack there of. Premium promotions are very popular now-a-days due to the acute competition, consumers brand preference and also the recession and credit squeeze.

   There are four types of premium offers viz., 1) Direct premium 2) Re-usable container 3) Free in mail premium and 4) self liquidating premium.

   1) **Direct premium:** Direct premium is also known as in on or near packages. It is included either inside or outside the package e.g., One over silver spoon offered free inside the economy size Horlicks bottles or a plastic spoon with a glucose pocket.
   2) **Re-usable container:** A reusable container is a container that has value to the consumer after the product is consumed such as detergent powders in plastic buckets.
   3) **Free in mail premium:** A free in the mail premium is an item that the company will mail to consumers who make a request for it enclosing a proof of purchase e.g., an encyclopedia offered against a stated number of pears toilet soap wrappers.
   4) **Self liquidating premium:** A self liquidating premium is an item that the company will sell by mail at price well below the normal or the original price to consumers, who request it. E.g., a pre-publication offer of a certain books at 50 percent concession. Reader's Digest Publications etc.

4. **Money refund offers :** This offer is usually stated in media advertising that the manufacturer will return within a stated period the whole of the purchase price if he is not completely satisfied e.g., Bull worker Exerciser is promoted in this way.

5. **Price off promotion:** This involves an offer to consumers of a certain amount of money off the regular price of a product prominently printed on the label or package. Special introductory offers of new brands can make this way.

There are three types of this kind of promotion viz., 1) a reduced price pack 2) a multiple pack and 3) a bounded back.

A reduced price pack is a single package at a reduced price e.g., 30 percent of Cinthol toilet soap. Multiple packs is two or more packages sold at a reduced price i.e., Two or three different products bounded together and offered at a reduced price e.g., Janatha set offered by Khadhi Vastralayam containing a Dhoti and Shirt made of Kadhi.

6. **Contests, sweepstakes and games**: Contests, sweepstakes, games have also seem a great upsurge in popularity in recent years because the provide excitement for the product or the service being promoted. A contest calls for consumers to submit an entry, an estimate, a suggestion or a slogan be examined by a panel of judges who will select the best entries. It also includes participating in beauty contest etc. – Made for Each other – contests by wills Cigarettes, award of prices for suggesting a name for a new brand, writing a slogan for advertising etc., are examples of these types of contests. A sweepstake involves nearly the inclusion of the consumer's name or his bill number in a drawing of price winners e.g., Buy quality textile from our retail show room for Rs.50/- and win a season ticket for Test Match . A firm dealing in textiles at Coimbatore awarded a House as the first price to the winner some years ago.

   A game calls for the consumers to receive something every time they make purchase – such as missing letters in completing a slogan which may or may not help them to win a game. This form of promotion is highly effective in promoting articles meant for juvenile consumers such as young and small children e.g., chewing gums.

7. **Demostrations :** A new brand is promoted by this way. The demonstrations are staged at exhibitions and fairs, temple, festivals or even on a door-to-door basis. These are particularly employed for promoting cosmetics, household appliances, and new beverages. The company may employ part-time demonstrators or have full time demonstrators in their pay roll.

2. Trade promotions

They are generally directed towards the dealers with a view to secure their patronage in preference of other products. There are also a number of trade promotional activities and some of them are listed below:

1. **Buying allowance:** The buying allowance is offered to the dealers to induce them to buy a new product introduced by the manufacturer. This allowance is usually deducted from the face value of the invoice.
2. **Buy back allowance:** This method of promotion is practiced to prevent post deal sales decline. Under this method the manufacturer offers a certain amount of money for additional few purchases based on the quantity of

purchase made on the first trade deal. This allowance goes to strengthen the buyer's motivation to co-operate on the first trade deal also.

3. **Free goods:** This is also a buying allowance but in the form of goods. An offer is made of a certain amount of a product of wholesalers and retailers at no cost to them on every purchase at a stated amount of the same or another product.
4. **Merchandise allowances:** They are short-term in character and given to compensate the dealers of the promotional expenses incurred by them. These include advertising allowance, display allowance etc. The allowance is given upon the proof of performance.
5. **Co-operative advertising:** Under this method, the producer agrees to pay an advertising allowance to the retailers for each unit of product purchased or a contract for a specified period.
6. **Dealer listed promotion:** Here the advertisements or other publicity materials like calendars, issued by the manufacture also contains the name and addresses of the retailers who stock the produce or who are operating in the promotion. This type of promotion performs the twin functions of consumer education and convincing of retailers about the need for co-operation in the promotion.

3. Sales force promotion

Personal selling is by far the most important method of sales promotion. Sales force promotion is highly essential to make personal selling effective and more impressive. The tools employed in the sales force promotion are the following:

1. **Bonus to sales force:** A quota is set for a specified period. Bonus is offered on sales in excess of the quota fixed by the sales manager in consultation with the salesmen.
2. **Sales force contests:** Sales force contests are announced to stimulate company salesman to double their selling interests and efforts over a stated period, with prices going to the top performers.
3. **Sales meeting etc:** Sales meetings, salesmen conventions and conferences etc., are those conducted for the purpose of educating, inspiring and rewarding the salesman. New selling techniques are described and discussed in those meets.

4.3.12 Advantages of sales promotion

The various advantages of sales promotion are the following:

1. **Large scale production**: Sales promotion measures generally aims at demand creation for the company's product. Enhanced volume of sales results in large scale production which ultimately lowers the unit cost.
2. **Effective sales support**: Sales promotion policies supplement the efforts of personal selling and advertising. These measures make the efforts of the

salesman more productive. They minimise the work to be done by the salesmen, avoid wastage in time and efforts.

3. **Quick returns:** Sales promotion devices bring quick results than any other methods like personal selling and advertising. Infact, the impact of sales promotion can be felt more quickly than advertising.
4. **Effective Control:** The management can exercise effective control over the methods used in the sales promotion programmes. This ensures lower promotional costs and quick and better returns. The management is also in a position to evaluate the impact of the programme with reference to the cost factor.

Activity 2.

Briefly write down the effectiveness of Sales promotion adopted by retailers in your city.

1. ....
2. ....
3. ....

Self Evaluating Exercise:

1. Define promotion and discuss its importance in retail selling.
2. What are the objectives of Promotion?
3. Discuss the tools employed in sales promotion.
4. Sales promotion activities are caused by many factors- elaborate
5. Discuss the different types of sales promotion programmes.

4.4 RETAIL SELLING PROCESS

Retail selling as the name suggests involves personal contacts. Advertising, on the other hand, involves no personal contact. Sales promotion is different from both these techniques. Now let us briefly explain about the Retail selling, its definition, qualities of retail seller and objectives .

4.4.1 Salesmanship and Retail Selling

The success of a marketing firm really depends on its effectiveness in creating a demand for its products and how effectively it satisfies its customers. To create a demand for the product, usually three techniques are employed by the marketing firms, namely, Personal Selling, Advertising and Sales Promotion. Of them personal selling has assumed an ever increasing importance than other techniques. The number of people employed in advertising is in thousands whereas in personal selling (retail selling) the number is in millions

Meaning and Definition of Retail Selling

Personal selling is a highly distinctive form of communication. Like other forms, i.e., advertising and sales promotion, it is basically communication; but unlike others it is two way rather than one way communication. Personal selling involves social behaviour of both the seller and the prospect influencing each other. The outcome of each sales situation depends upon the success of both the parties have in communicating with each other and in reaching a common understanding of the needs and goals. Now let us discuss some of the definitions of personal selling.

Definition of White Head: – Personal selling is an art of presenting an offering that the prospect appreciates the need for it and that a mutually satisfactory sale follows .

Definition of White Head: – Personal selling is an art of presenting an offering that the prospect appreciates the need for it and that a mutually satisfactory sale follows .

Definition of Philip Kotler: – Personal selling involves oral presentation in a conversation with one or more prospective purchases for the purpose of making sales .

4.4.2 Qualities of Personal Selling

According to Philip Kotler the distinctive qualities of personal selling are:

1. **Personal confrontation:** Two or more persons come into contact into active relation and each party is able to observe at close quarters, the characteristics and need of the other and make immediate adjustments and thereby make the encounter successful.
2. **Cultivation:** Personal selling may lead to all kinds of relationships ranging from a matter of fact selling relationship to a deep personal friendship.
3. **Response**: Personal selling usually makes the prospect to feel a sort of peculiar obligation for having listened to the sales talk.

4.4.3 Objectives of Personal Selling

Personal selling has both long term and short term objectives. The long term objectives are broad and general. The short term objectives are specific and relate to the roles which the management assigns as part of both promotional programme and overall marketing strategy. In certain instances, the role of personal selling is the minimum i.e., simply having sales people take orders from the customers. But in most cases it plays considerably more important roles.

As stated by Cundiff and Still, the objectives can be classified into two kinds viz.,

1. Qualitative objectives and
2. Quantitative objectives

1. **Qualitative Objectives:** Qualitative objectives are long term objectives and depend largely upon the overall long term objectives of the firm and the promotional mix. Such objectives change very little over a period of time and essentially they are carried over from one period's promotional programme to the next. The important qualitative objectives are given below:
    1. To do the entire selling job.
    2. To serve the existing customers in such a way to maintain communication with the present customers, take orders etc.
    3. To search out and obtain new customers.
    4. To secure and maintain customer's co-operation in stocking and promoting the product line.
    5. To keep the customers informed about the changes in the product line and other aspects of marketing strategy.
    6. To assist the dealers in selling the product.
    7. To provide technical advice and assistance to customers as in the case of complicated products and custom designed products.
    8. To assist with or handle the training of middlemen
    9. To provide advice and assistance to the middlemen on various management problems.
    10. To collect and report market information of interest and use to the company management.
2. **Quantitative objectives:** In addition to these qualitative objectives certain quantitative objectives are generally assigned to personal selling.

    They are:
    1. To obtain a specified sales volume.
    2. To obtain sales volume in such a way that contributes to profit objectives.
    3. To keep personal selling expenses within the specified limits.
    4. To secure and retain a specified share of the market. Thus, personal selling is a broader concept and covers a wide variety of activities.

4.4.4 Factors to be Considered While Taking Decision as to Retail Selling:

There are several broad principles to guide the manger in deciding the extent to which personal selling should be employed in his promotional progamme. The Retailer should consider the following factors before arriving at any decision.

1. Number of potential buyers: Retail selling is suitable when the number of potential buyers for a product or service is large.

2. Concentration of Potential buyers: Retail selling is much easier if the number of buyers is highly concentrated in one geographical area rather than dispersed over a wide area.
3. Size of the quantity purchased : The average size of the quantity purchased is another important factor in determining the economic feasibility of retail selling. For small quantity as well as large quantity is possible in this.
4. Heterogeneity: Retail selling is far more advisable in case of products that are produced according to individual specifications.
5. Need for demonstration: Where it is necessary to convince the potential buyers of product's merit, retail selling is almost compulsory.
6. Recognition of the need: The need for retail selling arises only when the prospects recognize the need for the article as it is exhibited in the show case.
7. Need for service: In some cases, considerable work must be done with consumer before selling a product and certain items are frequently after sales. If such is the situation retail servicing (selling) is necessary .

4.4.6 Essentials of Retail Salesmanship

1. The main aim of salesmanship is establishing sound and lasting relations between the sellers and buyers.
2. It can create wants that never existed before by showing the prospective buyers how particular goods or services satisfy their demand.
3. It consists of one human mind influencing another human mind.
4. It involves not only in selling the products and services but also in providing the knowledge, technical assistance, counsel and advice. The salesmanship is the process of selling the ideas of beauty, health, economy, prosperity, convenience, comforts and so on.
5. It brings reasonable profit to the seller and definite benefit to the buyer in the effort of inducing the customers to buy the goods and services.

Self Evaluating Exercise

1. Define retail selling
2. What is meant by Retail selling and explain its qualities?
3. Discuss the objectives of personal selling
4. What are the essentials of Retail salesmanship?
5. While taking decision as to Retail selling what are the factors to be considered?

UNIT - V GLOBALISATION AND RETAILING

Although the present ideas and innovations are all well thought out and are giving in short term results, the Indian organized retailing is still in its e evolutionary stage. At every point all retailers are vying for there presence and the resultant picture to the consumer is all too confusing. In the maturing process, retailers need to address this primary issue of differentiating themselves and forming niches to cater to their specific market rather than make a rat race. Retailers need to understand the value of retail as a brand rather than remaining as retailers selling brands. Indian retailing is coming of age and needs to have a clear brand proposition to offer the discerning Indian retailing is coming of age and needs to have a clear brand proposition to offer the discerning Indian consumer. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

There is no doubt that the retail business is gravitating from high street towards destination shopping. Brand building constitutes a way in which the main value of the retail store shifts to what has been traditionally called an intangible. However, the characteristics of the branding process, which are of interest to the retailers, are still the characteristics of the traditional product brands – they are simply extended to the intangible part of the business. Thus, the characteristics of a branded product are simply applied in a different space. Successful retailing has always been said to be, about getting the nitty-gritty right of merchandising, forecasting, the supply chain, training and recruitment of high quality personnel and category management. Building retail brands that offer value will, in future, overshadow all these areas, and emerge as the dominant reason for the success of the organized Indian retailer. Indian retailers should also understand that the retail experience has become a popular leisure activity and they are vulnerable to any new competition for customers' entertainment. Indian retailers must build their brands with images that seek to entertain and involve their customers. It is the quality and value of the retail brand that they have sought to establish that will determine the loyalty of the retail shopper in future.

Marketing skills have traditionally been weak in India due to a protected market in the past, so has a long-term global vision, unlike the Japanese or Korean goods manufactures. The American service companies, and the Asian manufacturing

companies should be the role models for strategic thinking and vision. This vision should be combined with hard work that is required to make a sustained impact on the global scene.

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India's global ascendancy in recent years has been driven by the IT-based service industries. This has been made possible due to years of pioneering work done by companies such as Tata Consultancy Services (TCS) and Tata Burroughs Limited (this company no longer exists), and followed up by several other companies, notably WIPRO and Infosys for several years now. In recent times, the BPO market has seen India becoming a major player, with low-value added jobs migrating to India. This has happened in two ways. One, the multinational companies (say, GE or HSBC) transferring their own operations to India and running them, or outsourcing the operations to third party Indian BPO operators (like British Rail has done). India's global ambitions have been very limited in the past, with efforts usually limited to traditional goods such as spices, gems and jewellery and textiles.

However, in the past decade, a host of factors have changed the thinking of Indian industry. For one, the winds of globalisation ushered in by the reforms have brought global brands into India. We now have McDonald's, Pizza Hut and Thank God It's Friday already operating here. In a few years we may also have a Wal-Mart here. This has given a boost to the ambitions of Indian marketers. NIIT already operates in foreign countries in the computer education field. Many other service brands may now begin to think global. For example, the Indian movies are slowly beginning to make inroads into foreign markets. Apart from traditional markets like the Middle East, the Hindi movies are finding mainstream audiences in the west too. Animation studios in India are capable of doing quality work for a fraction of the costs that western outfits charge, and therefore may succeed in taking a share of this market.

Most important in the process of globalisation is the mindset of companies that are globalising. Usually it implies looking at the world as your marketplace, rather than any one country. In this regard, the American service firms in some categories have been truly global in their outlook. We have the food giants like McDonald's, banks like Citibank, retailers like Wal-Mart, and investment bankers like a Morgan Stanley, not to mention consulting firms like Accenture and Internet portals like Yahoo.

RETAIL EVOLUTION

Organized retail is definitely a growing market, and there is a lot at stake for retail companies to profit from technology resources that give customers a better shopping experience. A report by Mumbai based financial services firm Enam Securities pegs that retail should capture about 10 percent of the market. If it were this then what would be the size of the market? A report by CII (Confederation

of Indian Industry) says that the retail industry in India would have a market size of $ 300 billion (Rs.1,420,000 crore) by 2010, if it continues to grow as fast as the economy, which is about six to seven per cent. Much of the growth in the organized segment will be driven by the entry of established business houses into the retailing business like ITC with its wills Lifestyle chain and Tata group with its Westside chain of stores. Both are using technology to derive greater business efficiencies and benefit the customer.

Many retail companies are aware of latest technologies, and they are in various stages of improving their IT infrastructure to handle expected growth in business and consequently generate more business benefits. These are encouraging developments, but much more can be done. The problem is not of just adopting technology, which is happening, but of using it well, which is not. Organized retailing has started and remained mainly in the south of India.

Till 1996 there was no clear definition of retail formats, Nilgiris being the exception, though some other companies with mainline business in electronics and automobiles did start ill-defined, short-lived formats that did not establish a position in consumers minds in terms of clarity of offering. This is not to stay the government stores in Tamil Nadu did not serve the consumer. However, subsidy, charity, and philanthropy are not words that do well in organized retail. The Apna Bazaar chain in Mumbai did well to keep the business going, perhaps by finding a way out of the most compelling problem of growth of retail in Mumbai space, and at viable rates. The point to be kept in mind is that organized retail must deliver solid value to the consumers and profits to shareholders. Unsuccessful retail ventures are those that failed to balance two objectives.

Food World starts operations in Chennai. The Food World format, which covers 3,000-5,000 sq.ft., high street stores in a 1-2 km radius of a clutch of houses, 6,000 SKU's emphasis on fruits, vegetables, and staples, prices on par with local grocers but lower in select categories (to drive Destination' status), has probably been the most popular format so far. By its very survival as a sustainable business, it has created a benchmark by which organized retail can be defined.

In another first, the RPG group powered the concept of India's first hypermarket – Giant. Giant was a paradigm shift in organized retail in India and it was only after many lengthy debates and research that the composition of the offer could be decided on. There is no substitute for experienced personnel in this type of format. Nuances at the category, operational and cost level are not apparent to start with. Positioning the entire store in the mind of the consumer and delivering on-the ground' is the key to succeeding in this format.

Why should this be different from any other business? Just for the fact that the daily business deals with 15,000 SKU's, 400 suppliers, thousands of consumers per day, seasonally, and impact of the likes of one-day international cricket transmission times is sufficiency to cause unknown, not so easy to quantity and comprehend changes in results. The complexity of the million-character field

variability is sufficient to be an entry barrier to the business. This is as true for the hypermarket as for the smaller, local supermarkets as well.

The county where the development of the retail sector has also followed an interesting path is Brazil. The concept of self-service in shopping was introduced to Brazil in 1953 but until 1972, there was no foreign influence in the Brazilian retail sector. Food retailing especially, continued to be Brazilian-owned and managed, although international innovations were adopted (Alexander and Silva, 2002). In 1972, the Dutch group Makro entered Brazil followed by Carrefour in 1975 and A hold in 1996. The 1990s have witnessed the introduction of technological innovations in retailing like electronic data interchange (EDI), retailer credit cards, retailers‘ own brands and efficient consumer response (ECR). Organisations like Carrefour and Wal-Mart have set up centralized distribution centers with electronic communication with suppliers. The shopping centers are becoming important in the retail landscape because they provide a variety of entertainment facilities that draw people to the retail stores. The number of intermediaries in marketing channels is decreasing as the operation of traditional wholesalers is under threat from the direct contact between retailers and suppliers, although a few specialized distributors have emerged who provide value added services such as distribution of frozen and chilled food.

The foregoing review has provided some information that enables the construction of a framework for analyzing the retail development in India. The driving forces towards development can be broadly classified into categories shown in Table below, which is followed by a discussion on each of the driving forces.

CHANGING RETAIL FORMATS

As the retailing scenario evolves in India, we will see many changes in the types of retail stores, their sizes and competitive strategies. For example, the major retail chains in India are up market, and the concept of discount stores is just catching on. Also, the food stores seem to be the major growth area, followed by garment-based retailing. But there are still unexplored areas, for instance, the saree supermarkets. These types of supermarkets are few in number, despite the saree being a favourite ladies‘ garment among a large part of India’s population. Another feature is that the retail chains are still far fewer in numbers and coverage than the western chains.

The emergence of new formats and the evolution of modern retail in India has attracted attention in recent years. The business press in India has carried several articles and news items in the last three years about the modern formats. The consulting firm KSA Technopak has organized retail meetings or summits in major metros, which have witnessed participation from major domestic and international retailers, and also from manufacturers. Venugopal (2001), has discussed the census studies of retail outlets that the market research firm ORG MARG

conducted in the 1990s. This census provided data and estimates on a number of parameters relating to Indian retail such as number and type of outlets, and growth of outlets over time separately for urban and rural areas. Due to these reports and activities, there is good deal of information available about what is happening in Indian retail. However, Indian retailing has received sparse attention by way of academic research with the exception of a few articles in academic journals and some case studies.

Taking a leaf out of Adam Smith's Wealth of Nations, India may very aptly be described as a nation of shopkeepers'. India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99 percent retailers function in less than 500 square feet of shopping space. Global retail consultants KSA Technical have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

There is no doubt that the Indian retail scene is booming. A number of large corporate houses – Tata's, Raheja's, Piramals's, Goenka's – have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new age book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. The organized players have attacked every retail category, today. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies, or having a well thought out branding strategy.

The last millennium has witnessed innovations at every stage of the supply chain, giving rise to new models. The consumer interface, i.e., the retailing factor has undergone a sea change, partly due to changing consumer needs and partly due to the emergence of new technologies. While some of the changes have been evolutionary in nature, some others have been category killers leading to radical change in both consumer perceptions and formats. The ever-increasing focus on the customer will encourage all retailers to investigate the best way to foster and retain customer loyalty. With the conventional wisdom in retailing questioned and factors like location and prices not deemed as differentiating enough the retailers look into more innovative methods to attract customers. We take a look at trends in retail innovations.

Product Developments

The fact that the Indian ladies ethnic wear has no branded products is welcomed by all retailers, now as they offer new varieties every in season. Soon retail branded products will be seen to dominate this scene. Be it the 50,000 colours sari of Rm

K.V or the longest pallu of Pothys or the 3 D sari of Kumarans. Each showroom now boasts of a new design. The lifestyle retailers like Westside and Shopper's Stop have stocked designer wear from some of India's best-known fashion designers, among them Wendell rodericks, Anita Dongre, Krishna Mehta and Mona Pali. This is an interesting marketing shift, since it means moving away from the chain's only-our-own-brands concept. These are a one time attracting feature and will they stand the test for regular purchases are to be seen.

Environment and Experience

With the shift in the customer mindset from shopping as an activity to shopping as an experience, more malls and bitter stores are to be seen. The four major retailers – Life Style, Westside, Shoppers' Stop and Globus – alone account for a little over 200,000 square feet of retail space. Add to that the retail space of the traditional apparel retailers such as Nalli's and Kumarans and the recent entrants such as Pothys, Rm. K.V. and Chennai silks and that of the scores of multi-brand outlets, the figure shoots up. The reasonable real estate prices, overall lower cost of operations and accessibility to consumers vis-a-vis other metros, have spurned the growth of organized retail at Chennai. A case in comparison is the Nike Town. A walk through a long, tiled corridor will take you to a 36-foot high video screen, which shows movies alternating with pop music being blared at high dance floor levels. Further ahead, are aquariums full of tropical fish swimming around to nature' music. Another level will find you looking at exhibits like old ropes, oxygen tanks and climbing shoes for mountaineering. No, this is not a new-age entertainment arcade (though it can pass of as one); it is just another store where Nike sells its shoes, the Nike Town. The whole setup and ambience is reflective of the brand. Such differentiating factors are absent in the Indian retail outlets.

Competitive Sales

Given widespread availability of the same brands, retailers have to cope with the phenomenon of discounts. The retailers themselves dilute the strength of the retail market. With promotions becoming the order of the day, they have entered into price wars against each other. Up to 50 percent off' sales and Two for one' price offers have now become commonplace even at the top retail outlets across our country. Every season every festival has more price cuts. The discounted buying has become an annual market strategy rather than a mere sales promotion for a few weeks. Deep price cuts may not be the answer to maintain their relevance against the small retailers nor does it augur well for the brand building of the store.

Currently all major retailers and lifestyle stores offer loyalty cards of reward programs. This is an effort to retain customers by offering added benefits. Free door delivery, convenient shopping hours, movie tickets, reward points etc. are some of the features offered by these outlets. Lifestyle, Globus, Westside, Shoppers Stop, Landmark, even multiplex like Mayaajal has a reward program. The concept

is to move from myopic or single period decision making (short-ter price promotions) to dynamic or multiple period decision making (loyalty based promotions). The loyalty programs work as dynamic incentive schemes by providing benefits based on cumulative purchase over time. While there are benefits, many customers still feel the wait for the accumulation of reward points a dampening effect.

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Table 5.1 *Factors Underlying Modernisation In Retailing*

Sl.No.	**Underlying Factors**
1	Economic development
2	Improvements in civic situation
3	Changes in consumer needs, attitudes and behaviour Changes in government in retailing
4	Increased Investment
5	Rise in power of organized retail

Economic Development

The development of the Indian economy is a necessary condition for the development of the Indian retail sector. The example of Thailand shows the impetus to modernization of retail, was provided by the economic boom in Thailand. Development increases the disposable income in the hands of consumers and leads to an increase in the proportion of spending on discretionary non-food items. The economic development also enfranchises new households as potential customers for modern retail and leads to increased ownership of personal transportation among consumers, which in turn can increase their willingness to travel longer distances to shop in new format stores. The growth of the economy can also provide gainful employment to those who would otherwise enter retailing in areas like hawking, roadside vending and other similar low cost entries into the retail sector. Rapid economic development may also positively influence the views of international retailing companies about the business prospects and investment attractiveness in a country. A high degree of inflation in the economy is however, not conducive to modernization of the retail sector. In Brazil, the real progress in retail was noticed only after the stabilization of the economy and control of inflation. Development also has an influence on the regions and cities where modern formats the initially set up. In the Greek, Thai and Brazilian cases, modern formats first appeared in the important cities. This has been noticed in India as well, as the modern formats first appeared in the metros like Delhi, Mumbai and Chennai and the mini metros like Bangalore and Hyderabad due to the comparatively higher level of disposable incomes available in these cities.

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Improvements in Civic Situation

The civic situation includes factors like safety and security in the city and the various municipal regulations governing the opening, location and operation of stores, and the nature of public transport available. A safe and secure environment will encourage the setting up of 24 hour convenience stores and the operation of shopping plazas and encourage shopping expeditions for the whole family. The presence of adequate parking facilities or excellent public transportation will encourage consumers to be more mobile in their choice of store. City or state regulations on opening or closing hours, rent control laws, availability of adequate electrical power and regulations relating to licensing will affect both the time required to set up a new store as well as the cost of store operation and its viability. Many of the civic factors mentioned above would be dependent on the economic development and administrative policies in the area. The impact of the civic situation may influence the choice of the cities, states, zones in which the modernization investments will be made.

Changes in Consumer Need, Attitude and Behaviour

The growth of modern retail is linked to consumer needs, attitudes and behaviour. Marketing channels including retailing emerge because they receive impetus from both the supply side, and the demand side. On the demand side, the marketing channel provides service outputs that consumer's value. These service outputs may include but are not limited to bulk-breaking, spatial convenience, waiting and delivery time and assortment. In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts. Modernisation will have to address convenience issues while presenting strong alternatives to the weaknesses of traditional formats in selection of merchandise available for sale. Modern formats need not be expensive and can offer lower prices to consumers. The lower prices in turn will increase the attractiveness of modern formats and rapid growth in the preference for purchasing from new format stores.

Store ambience includes issues such as lighting, cleanliness, store layout and space for movement. Modern stores can offer a far better ambience compared to traditional stores. On the service front, traditional stores especially kirana stores offer credit and home delivery. These needs will have to be addressed by new the format. Experience from Brazil shows that the combination of entertainment and shopping provided by some shopping centers, is attractive to consumes. This may become important in India as well because of the limited entertainment options currently available in the cities. While consumer needs, attitudes and behaviour will influence the development in retail, it is likely that investments in retailing and the creation of new stores offering value will in turn influence the consumers. This appears to have happened in Greece, Thailand and Brazil.

Changes in Government Policies

The Government of India has clarified on a number of occasions that foreign direct investment will not be permitted in India in the retailing sector. Major international retailer organizations are waiting for signals of policy change especially in the wake of Chinese permission for foreign investment in its retail. In opening up the retail sector, the government may consider various approaches such as insisting on joint ventures, limiting the foreign stake, or specifying the cities areas where investment is permitted. Thailand's example shows that in case of joint ventures, the local partner can play a significant role in the success of the joint venture. The Brazilian experience shows that local retailing groups can successfully compete against international chains if they adopt innovations and restructure operations in accordance with the market needs. Some policy protection can be given to consumer cooperatives, which have been providing value to their members and customers. This protection can be in the form of allowing these organizations to access capital from the local market and operate in a more professional manner. The government can also play a positive role in simplifying or eliminating the plethora of regulations governing retailing. Specific laws relating to franchising will also be desirable for foreign and Indian brand owners to adopt the franchise route in a bigger way.

Increased Investment in Retailing

The prospects for significant modernization and development in retailing will depend on the nature of investment in this sector. The investment will be of two types- foreign and domestic. The quantum and nature of investment will depend on the factors outlined earlier namely economic development; civic situation; consumer needs; attitudes and behaviour; and government policies.

Although FDI is not yet permitted in retailing, a number of global retailers are testing the waters by signing technical agreements and franchises with Indian firms. Fast food chains like McDonald's and Pizza Hut are already operating in the metros. A Marks and Spencer store is already operational in Mumbai. Several global retailers are awaiting a change in policy. However, the development of the Indian retail sector is dependent not just on foreign investment but on Indian investment as well. Since the 1980s, industrial groups such as Reliance and Raymonds have been active in encouraging development of well-appointed exclusive showrooms for their textile brands. In the 1990s, industrial houses like Rahejas, Piramals, and Tatas have entered retailing. Several Indian and foreign brands have used franchising to establish exclusive outlets for their brands.

At present the new format stores cater mostly to households belonging to the higher income families. The catchments area for these modern stores has to be fairly large as the number of such households is small in relation to the total population. This limits the number of stores and constrains the growth of chains.

The modern stores have also been plagued by low conversion in relation to the number of footfalls. This means that although a large number of people visit the store, the number of buyers and the average bill amount is small. Due to low sales, the bargaining power of the retailers with suppliers and manufactures is low and this restricts their average gross margin. On the other hand, the expenses involved in setting up and maintaining a modern format store tend' to be much higher than the traditional store due to the additional expenses on larger size, better locations and superior ambience. Therefore, if the returns on investment in the new formats have to be attractive, modern retailers have to develop a strong supply chain that would provide them significant gross margins while delivering merchandise at attractive prices to customers. In order to do this, modern retailers would have to eliminate middlemen and buy directly from suppliers and make use of technology to control the inventory. These developments will impact the survival and existence of middlemen such as wholesalers and agents who will have to find new business models to survive. The manufacturing firms will also face pressure from strong buyers on price, delivery and service terms.

Increase in Power of Organised Retail

The bargaining power of organized retail translates directly into higher gross margins for the retailers. At present there are a large number of independent retailers with little bargaining power vis-à-vis manufacturers, distributors and wholesalers. The manufacturers have been promoting their brands and generating consumer demand for branded products. This makes it necessary for all varieties of stores especially in urban areas to stock branded products. The manufacturers take advantage of the consumer pull to limit margins to the retailers. The retailers manage their profitability by operating on a very low cost basis. This is possible because of low rental expenses due to historical reasons and low labour costs due to employment of family members in the store. The modern stores have somewhat higher gross margins, but their net margins are not very significant for providing the cash flow required to fuel rapid growth in outlets.

The retailers can increase their power in several ways. They can invest efforts in developing their own store brands. The supermarket chain Food world has begun doing this in a limited way with food grains and pulses. Secondly, they can invest in supply chain, buy directly from the sources and eliminate middlemen. Thirdly, they can attempt to obtain volumes in buying by aggregating the requirements of various store, and bargaining for better prices by placing large orders. Although this strategy suits the chain stores, independent grocers may also get together by forming a cooperative or buying club in order to benefit from scale economies in purchasing. The retailers can also obtain several benefits from using information technology. They can monitor their stocks and sales using IT and thus manage their working capital more efficiently. They can also analyse data about customers and their buying habits and be in a position to develop marketing strategies and promotional offers to increase the customer purchasing at the outlet.

The manufacturing firms would have to develop new strategies for dealing with powerful retailers. The first change required will be one of mind-set. Negotiations with powerful retailers will have to be carried out at much higher executive levels within the firm. The new structures such as national account managers, category managers, etc. would have to be deployed for the purpose. The firms will also have to reconsider their brand promise, brand promotion and their brand building policies to deal with store brands that will be introduced by retail chains. Besides, the firms will have to re-engineer their logistics policies to meet the demands of powerful retailers for just-in-time delivery to their distribution centers or stores. New product introductions will have to be coordinated with the retail chains so that adequate shelf space is available at launch. The firms will need to carefully look at their product cost structures both in terms of variable cost and allocated fixed costs in order to maintain profitability in the face of pressures for price reductions from powerful retailers.

The Indian retail sector is largely traditional, but stores in modern format are emerging. The contribution of organized retailing in the share of retail sales in India is currently very small. Based on an analysis of retail developments in countries such as Thailand, Brazil and Greece, and some experience in India, it is possible to conclude that modernization of retailing in India would be influenced by some important factors. These factors include economic development; improvements in civic situation; changes in consumer needs, attitudes and behaviour; changes in government policies; increased investment in retailing and rise in the power of organized retail. The development of modern retail will have several implications for managerial practice in manufacturing firms. Firms will need to proactively review their sales structures, brand activities and logistics policy and price structure to cope with pressures from powerful retailers.

Organized retail success is based on the following concepts:

- Location: In India there is no expressways connecting homes and large markets. Hence, the Indian consumer has to make-do with territorial shopping‘. Over 90 per cent of shops regularly at one or two retail outlets in their neighbourhood for 75 per cent of their monthly needs.

  A neighborhood can, therefore, take two distinct formats. Once a Food World type format that offers all the requirements of the kitchen and toilet as well as fresh produce. The other, an exclusive fresh produce format (could include meat and fish) that will bring freshness of produce closer to the home. And on the outskirts of cities will be large hypermarkets that are exciting by their very presence and size and range. Price adds to the ever-compelling reason to travel to these hypermarkets. The rules then for hypermarkets will be to have a mix of range and price that determines the trade-off ratio of the consumer between getting it all in the neighbourhood and the compelling reason‘ which will entice the consumer to take a long ride. De Bono has helped us by discovering that our minds are capable of

lateral thinking. So how about setting the hypermarket in the heart of the city? How about moving the Niagara to New York? Well, if it were possible to do, then why wont you?

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- Retailer-company relationship: The most profitable realization that dawned on companies and progressive retailers alike was that sustainable business propositions lie in working together. This is not optional and those who did so are still around, and are likely to be so in the future. There are clearly some areas that have now become templates that drive the company-retailer relationship. New product introduction innovative new products are the lifelines of any company. Discerning retailers have been witnessing to failure of gimmicks in this area, where products launched with much fanfare and a costs that stake the bottom line, have all but failed to even get the consumer to repeat the product once. The space for brands at the top slot in categories is indeed narrow. While brand managers sitting in corporate offices agonize over which model to choose for the launch, the reality is that the product may never succeed to start with. Research has its place and it is tempting to repeat the oft-quoted corporate saying, – nothing can substitute the get fee.
- Replenishment: An area that is a cause of the greatest concern for a retailer. The average replenishment from the top 20 FMCG companies is at 65 per cent.
- Range redundancy; Companies introduce new products and delete slower moving ones from their range. This is well managed within the companies and stocks are liquidated in a timely manner. However, if these remain in the retailer's Product Master there is considerable wastage of time and effort in trying to order the non-existing SKU and in keeping precious store space earmarked for such stock unproductive.
- Promotions: Promotion is the incentive given to the consumer to buy larger quantities or just to remain competitive. In self-service supermarkets top class retailers speak of the promotional feel' when the consumers enters the store. It adds to the value of the store through the excitement it provides the consumer. No matter where in the world, grocery consumers just love to see lots and lots of promotions. The better displayed and laid-out the SKUs promoted, the more enticing the looks.

  However, the secret lies also in the selection of SKUs. The retail buyer who does not understand the meaning of price elasticity of demand cannot ever structure profitable promotions. The selection process of SKUs from thousands of probable is in itself the retailer. Companies need to study the category performance to be able to understand how brands fare. Retailers look at category performance in the first instance and then choose the brand that is likely to deliver the highest sales per square foot.

For new retailers entering the business, the excitement of the sunrise industry could quickly vapourize on encountering the complexity of the trade. A retailer

needs to be multi-faced-to be able to work with 600 product categories, have expertise in fields ranging from agriculture to computer systems. It calls for people who have a passion for what they do and are able to stay motivated in times of downturn.

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To be able to transparently deal with some of the best FMCG companies in the world, on terms that suit the retailer's needs, require size of business and vision translated into action on the floor. Successful retailing is not about equity (money) power only. It is about skilled people and a core team that will steer the retailer towards the vision set.

Existing retailers must prepare for a future where profits that will come entirely from the supply chain and not from reprising'. Disinter mediation is the key to unlocking hidden costs in the supply chain, no matter it is tomatoes from Hoskote or iceberg lettuce from Ooty, or soaps and cosmetics from FMCG companies. There will be demands on the retailer to show fairness and justice in dealings with even the smallest of suppliers, in order to build back-end loyalties'.

When all is said and done, only one factor eventually matters in successful retailing-SIZE. The quicker the size is reached the earlier will be the profits. The later the profits, the earlier will be the pressure to exist the industry or expand to reach the size through growth – which is never a good strategy.

The best measure of a commercially successful retailer is given by the following 10 Keys to Retail Success Nowadays, retailers are facing problems related to increase in rent, late delivery of products, price hike, and problem from sales staff, bank loans and high expectation from customers. To overcome these problems, a retailer may focus on the following 10 aspects.

1. Analyze the sales staff's role.
2. Analyze employees relationship.
3. Use Internal resources.
4. Know your customers.
5. Must be customer oriented.
6. Listen to customer complaints.
7. Analyze accounts.
8. Compare the product ranges available with competitors
9. Go for market expansion.
10. Take time to listen to company's sales representatives.

EMERGING NEW FACE OF RETAILING

The changing face of the retail industry, with geographically spread branches, customization and higher service levels has necessitated retailers to do business in the smart way. The three critical segments of Supply Chain Management, innovative

retailing and demand creation have all to be met in a cost-effective and efficient manner and that requires IT tools.

Table 5.2 *Retail Industry Trends*

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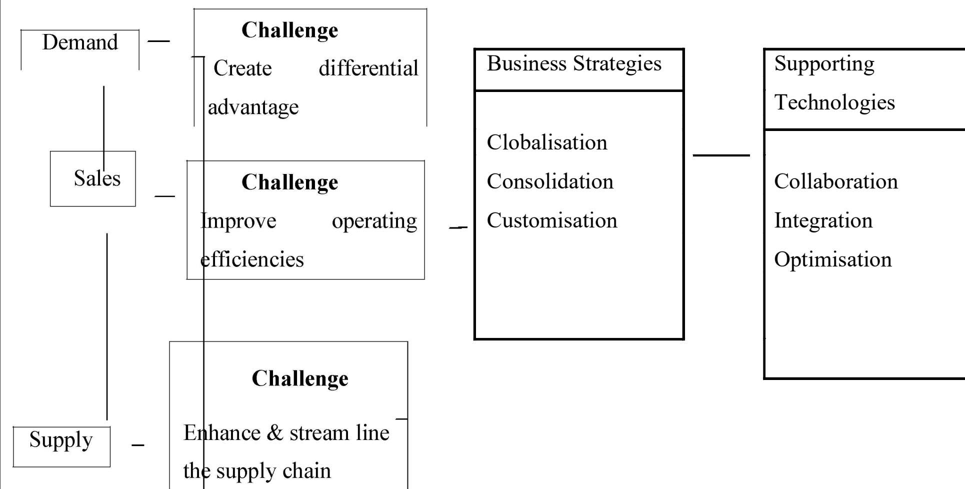
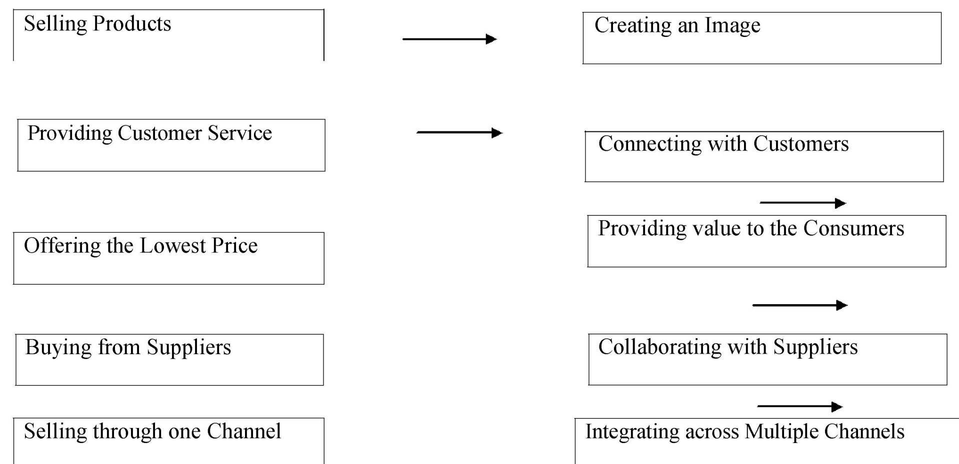


Table 5.3 *The Changing Retail Model*



Alternative selling channels

Sales through most alternative selling channels are tiny or non-existent. The only exception was direct selling, which grew rapidly over the review period. The main reason for this was that direct selling companies could easily attract a huge number of – distributors , who constitute the key element for the success of any direct selling company. Many of these are unemployed Indian housewives who welcomed this opportunity to earn additional income for their households. The low start-up costs meant that they could easily start this business.

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Forecast total retail sales

Retail sales (in real terms) are predicted to rise more rapidly than consumer expenditure during 2003-2008. The forecast growth in real retail sales during 2003-2008 is 8.3 percent per year (compared with 7.1% for consumer expenditure).

Inevitably, modernization of the Indian retail sector will be reflected in rapid growth in sales of supermarkets, departmental stores and hypermarkets. This is because of the growing preference of the affluent and upper middle classes for shopping at these types of retail stores, given the conveniences they offer such as shopping ambience, variety and a single point source for purchases. Hence, sales from these large format stores are predicted to expand at growth rated ranging from 24 percent to 49 percent per year during 2003-2008. However, such rapid growth is from a small base. Hence, they will continue to account for only small share of total retail sales in 2008.

Today, the buzzword across the world in retailing is diversification. The retailing patterns worldwide are moving from being product-centric to ecosystem-based. Thus, the thought that is confronting the Indian retail industry is natural-whether it should follow the world trends or stick to the marketing basics of segmenting, targeting and positioning while developing the shopping malls.

Over the last decade, the Indian retail sector has experienced major changes. The organized retail growth in the country has been triggered by tremendous increase in consumer spending, which in turn, has been fuelled by the rise in the disposable income. According to the Ten Year White book-The Indian Consumer Market 1997 to 2007*, the rich Indian (annual income greater than Rs.2, 15,000) us subject it grow six times in the period between 1997 and 2007. The DSP Merrill Lynch India research further confirms this fact by stating that the household consumption spends in the country is expected to double to $510 billion in the next five years from an estimated $250 billion as of March 31, 2003. It is important to note that besides the increased per capita income, a number of other factors have also played a very important role in the increase of consumer spending that we are presently witnessing in India. The most prominent of these factors are the changing age profile, increasing consumerism, the availability of cheap credit and changing attitudes of the Indians.

All these factors have led to a situation where the customers are looking at shopping as an experience rather than a chore to fulfill his/her requirements. These factors have also played a key role in the emergence of the variety of retail formats. One of these formats in organized retailing, – The Shopping Mall has caught the fancy of the real estate developers, the large retail brands, the entertainment entrepreneurs and the consumers, especially in the metros and bigger cities of the country. Malls like Spencer's Plaza in Chennai, Ansal's Plaza in New Delhi and Crossroads in Mumbai have become the beacon lights in shaping the character of

shopping malls in India in the 21st century. The role of the shopping malls in organized retailing has also been further enhanced by the fact that FDI in retail industry is presently not permitted in India. Thus, these shopping malls are at present the guiding lights of organized retailing in India, and their success will make or mar the future of organized retailing in this country to a very large extent.

To put the growth of shopping malls in quantitative terms, about 60 malls were coming up in the country in the beginning of 2002. This figure escalated to 300 in a span of 18 months (October 2003). This exponential growth in shopping malls has led the entrepreneurs, the mall developers and the major retail brands to realize the latent unmet needs of the urban consumer spread over a wide variety of areas like food and grocery, home product, electronics/IT goods, food service and entertainment.

E-RETAILING

The rise of the Internet has opened up a new avenue for retailers, to reach out to their customers and suppliers, in markets where they do not have a physical presence. It has presented opportunities for deepening customer relations, streamlining operations, cutting costs and discovering new sources of revenue. The near future may see retailers adopting RFID at a large scale and customers using PDAs and scanners, interactive kiosks and the combination of on-line and off-line purchasing.

The rise of the Internet has led to some phenomenal changes in the way business is conducted in various industries. In retail, it has opened up a new avenue for retailers to reach out to their customers and suppliers, in markets where they do not have a physical presence. It has presented opportunities for deepening of customer relations, streamlining operations, cutting costs and discovering new sources of revenue.

In the more mature retail markets of the world, the websites of most of the retailers allow business to be conducted on line. The reasons for the emergence of e-tail as a viable source of business, stems from the fact that it can offer a larger basket to the consumer. For example, the largest brick and mortar book store chain

– Barnes and Noble – Offers 20,000 books at any point of time. Amazon.com on the other hand, offers 4 million books. It is also one of the few business that allow the consumer to shop at a time and day convenient to him. He can shop 365 days a year, 24 hours a day and 7 days a week. Electronic retailing may also be looked upon as a case of reverse marketing, where the consumers seek out products.

E-COMMERCE AND RETAILING

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The e-commerce market in India saw frenzied activity a few years ago, with just about everybody getting into the act. However, after the dot com bust, the Business to Commerce (B2C) market in India, is now showing signs of revival.

According to IDC India[1], the B2C market has made good progress, despite a small base. The growth, though significant, is comparatively small when compared to the B2C market in the United States of America, which touched $50.3 billion last year[2].

The growth has to be seen in the light of the fact that in India, Internet usage is largely an urban phenomenon. Though companies like ITC, with their e-choupal model, have taken Internet usage the farmer in India, in urban India, he Internet access charges are on the higher side. However, with the sharp decrease in the rates of personal computers, the market for home PCs should see a boom and this should aid the further development of e-commerce in India.

Another factor, which has affected the rapid development of e-commerce in India, is the slow development of the delivery and payment infrastructure. Unlike in the developed markets, where a single service provider may handle deliveries throughout the country, delivery companies in India are fragmented. The level of service provided by them, to the customers, is also negligible. Customers in India also hesitate in making transactions b way of credit cards, on the Internet. Despite all these factors, certain e-commerce models in India have met with success.

Bazee, Fabmall, Times Internet, Rediff and Sify are examples of some of the successful e-commerce portals in India. Times Internet is in fact, a classic example of an online venture that was struggling since its inception in April 2000. It had accumulated losses of nearly Rs 11 crore. However, for the year ending April 2004, it is expected to declare a net profit of Rs. 6.6 crore[3]. The turnover is expected to touch Rs. 120 crore, up from Rs. 75 crore in the year 2002.

In order to succeed on the Internet, the e-tailer needs to understand the products that sell on the Internet. Books, music CDs, and gifs are obvious answers. In India, what has emerged as the faster selling category on the Internet, is travel. In less than a year, the Indian Railways site has become the largest e-commerce site in India (for credit cards) and transacted Rs 4 crore worth of business in January 2003 alone[4].

Electronic retailing, inspite of all its problems, is here to stay. Just as brick and mortar retailers have built brands over the years, e-tailers will need to build brands. Brand building on the web, will have to focus on the experience, as the experience will be the brand. To create this complete experience, the e-tailer may also need an on-line category manager, who would build and maintain the web pages and provide inventory, shipping and customer service. Most of the store-

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based retailers in the mature markets, offer an on-line presence. Most of the websites of Indian retailers in India, a few retailers like Oyserbay and Oxford bookstore, have made a beginning in this area. The integration of a website and the traditional brick and mortar store, can present tremendous opportunities for the retailer. The retail industry worldwide continues to remain one for the mature users of technology. The world of technology and the world of retail, change continuously.

GLOBAL ENTRY STRATEGY

One of the major issues for a globalising company is that of the correct strategy in terms of standardizing its service product. Several companies and business leaders have argued about standardization or customization being the right‘ approach. One useful approach is to think global, and act local, as per the needs of the local markets. For example, the McDonald’s does not offer beef burgers, its most popular item in most other markets, in India. However, many other products on its menu remain the same, or similar. This is because the company has to take care of local sentiments. Similarly, an Indian restaurant offering food to Americans may have to follow more stringent laws about kitchen hygiene in western countries.

Some changes in products or practices are due to the environmental factors such as the law, the local environment or the customer sentiment. Other changes may be due to fine-tuning of the service to suit local customer tastes or preferences. For example, hotels in India offer a lot of personal services to guests, some of which could be eliminated if the hotel were to start operations in the US where guests may be comfortable doing things on their own, rather than being served by a person.

Other examples could be about the use of technology, or timings to suit local needs, and of course, the amount of spices in food served. For example, the Chinese food served in India differs a lot from that served in western countries such as the US. It is made a lot spicier in India to cater to local taste buds. The level of hygiene and cleanliness would be a factor (not to mention the malpractice laws) that has to be particularly kept in mind for a hospital from India if it intends to operate in the US.

NEW CUSTOMISED FORMATS

Emergence of Self-service

Retail evolved in many ways over the twentieth century. Self-service as a concept, started in 1916, when Clarence Saunders started the first self-service store – Piggly Wiggly in Memphis, Tennessee. The concept of self-service helped the retailer reduce costs, as fewer workers were required to service the customers.

Supermarkets

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The 1930s saw the emergence of the supermarkets. The end of World War II recorded the retail scene-though the retail boom continued. It also saw the emergence of discount stores. These stores appeared to meet the needs of the blue-collar workers. The first hypermarket that was developed was Carrefour in France, in 1963.

The new formats gave the customer the choice of picking up a product, of comparing it with others and then taking a decision on buying. This required that the products were displayed and packaged attractively. It also became necessary to provide all the information with respect to the price, date of manufacture, and expiry weight etc. on the product itself, to aid decision-making. The mass merchandisers worked on three principles, which have now become the fundamental principles of modern selling- 1) They fixed product prices before sale, and the customers bought at the set prices.2) The prices were determined on the basis of stock turns and amount of profit would be generated from the product.3) They departmentalised the products. Accounting systems were devised to determine the contribution of various departments and this enabled them to drop unprofitable goods.[5]

Speciality Stores, Malls and Other Formats

As the needs of the consumers grew and changed, one saw the emergence of commodity specialized mass merchandisers in the 1970's. The seventies also were witness to the use of technology in the retail sector with the introduction of the barcode'. Speciality chains developed in the 80s, as did the large shopping malls.

Shopping malls, a late 20th -century development, were created to provide for all of a consumer's needs in a single, self-contained shopping area. Although they were first created for the convenience of suburban populations, they are now found in many main city thoroughfares. A large branch of a well-known retail chain usually serves as a mall's retail flagship, which is the primary attraction for customers.

In Asian countries, many malls house swimming pools, arcades and amusement parks. Hong Kong's City Plaza shopping mall includes one of the territory's two ice rinks. The Mall of America, which opened in 1992, employs more than 12 thousand people and is over 98 percent leased. Visitors spend an average of three hours in the Mall, which is three times the national average for shopping malls. The Mall of America is one of the most visited destinations in the United Stages, attracting more visitors annually, than Disney World, Grace land and the Grand Canyon combined.[6] Malls have also become a rage in Asia and The Times Square, Kuala Lumpur, with a built-up area of 7.5 million sq.ft. (697,000 sqm), is the world's largest integrated complex built in a single phase. It's also the biggest shopping mall in Asia.[7]

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Thus, the evolution of retail formats worldwide has been largely influenced by a constantly changing social and economic landscape. One of the main reasons for new formats emerging is the consumer himself. Today's consumer, when compared to the consumer of the earlier generation, is definitely more demanding and is focused on what he wants. Consumer demand is the prime reason for the emergence of various formats.

The retailer, on the other hand, has been influenced by factors like the availability of real estate, and the increase in its prices. He is faced with the challenge of adding on new services and the need for differentiation. This has led to specialization and the emergence of specialists. Supply chain complexities and the increasing pressure on margins has also forced the retailers to look at new formats.

CLASSIFICATION OF RETAIL STORES

Retailing has changed dramatically from the day of the general store. Retailers range in size from small, independent, owner-operated shops like the local florist, dry cleaners, or barber, to national and international giant category killers. As the Indian retail market is just beginning to evolve, one again needs to look at the formats, which has evolved over a period of time in the west. The basic classification done is store-based retailers and non-store retailers. The store-based retailers can be further classified on the basis of the merchandise that they offer, or by the manner of ownership.

1. Classification on the Basis of Ownership

On the basis of ownership, a retail store can be an independent retailer, a chain retailer or a corporate retail chain, a franchise or a consumer co-operative.

An Independent retailer is one who owns and operates only one retail outlet. Such an outlet essentially features the owner and proprietor and a few other local hands or family members working as assistants in the shop. Many independent stores tend to be passed on from generation to generation.

In India a large number of retailers are independent retailers. Stores like the local baniya /kirana store and panwala, are examples of independent retailers, as are stores like Benzer, Instyle, Premsons, Amarsons, etc. The ease of entry into the retail market is one of he biggest advantages available to an Independent retailer. Depending on the location and product mix that he chooses to offer, he can determine the retail strategy. The independent retailer often has the advantage of having a one to one rapport with most of his customers. However, on the flip side, the advantages of economies of scale and bargaining power with the suppliers are limited.

A chain retailer or a corporate retail chain: When two or more outlets are under a common ownership, it is called a retail chain. These stores are characterized y the similarity in merchandise offered to the consumer, the ambience, the advertising

and the promotions. Examples in India include Wills Sports (ITC), Louis Phillipe, Van Heusen (Madura Garments), Arrow (Arvind Mills), and department stores like Globus, Westside and Shopper's Stop, Foodworld, Music World, Planet M, etc. are also examples of chain retailers.

The biggest advantage that a chain retailer has is the bargaining power that he can have with the suppliers. Cost effectiveness is also possible in advertising and promotions. Since chains expand across cities and regions, it may not always be possible to take into account the regional, or rural and urban preferences. The ability to give attention to each of the stores becomes fairly restricted.

Franchising a franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under an established name, as per a particular business format, in return for a fee or compensation. Franchising may be for the following:

- **A product or a trade mark franchise** – where the franchisee sells the products of the franchiser and / or operates under the franchiser's name. Archie's stores, which have come up all across India, are an example of product franchising.
- **A business format franchise** – McDonald's is perhaps one of the best examples of business format franchising.

Under the both the above-mentioned methods of franchising, the franchise may be for a single store, a multiple number of stores for a region or country. Companies like Arvind Mills, Madura Garments, Benetton have expanded in India by opening franchise outlets for their brands. International fast food retailers like Subway, Domino's, Pizza Hut and McDonald's too have started operations in India through franchising. Franchising as a method of expanding the retail business, is explored in detail, later in this chapter.

Leased Departments

These are also termed as shop-in-shops. When a section of a department in a retail store is leased / rented to an outside party, it is termed as a leased department. A leased department within a store is a good method available to the retailer, for expanding his product offering to the customers. In India, many large department stores operate their perfumes and cosmetics counters in this manner. A new trend emerging in Indian retail is that of larger retail chains setting up smaller retail outlets or counters in high traffic areas like malls, department stores multiplexes and public places like airports and railway stations. These sores display only a fraction of the merchandise / products sold in the anchor stores. Their main aim is to be available to the consumer near his place of work or home.

Consumer Co-operatives

A consumer co-operative is a retail institution owned by its member customers. A consumer co-operative may arise because of dissatisfied consumers, whose needs

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are not fulfilled by he excising retailers. As the members of the co-operative largely run these co-operatives, there is a limitation on its growth opportunities. Examples of co-operatives in India are the Sahakari Bhandars and Apna Bazaar shops in Mumbai and the Super Bazaar in Delhi. Retail focuses on the Kendriya Bhandras operated by the government – probably one of the oldest examples of co-operative stores in India.

2. Classification on the Basis of the Merchandise Offered

If retailers are to be classified on the basis of the merchandise mix that they offer to their customers, they may be very broadly as the food oriented and the general merchandise retailers. Within this classification, we can further classify them on the basis of the target market that they cater to. Speciality stores, department stores and convenience stores cater to a very specific target market. They are hence, many a times referred to as product / service retailers. In contrast, the supermarkets, discount stores, hyper markets and off price retailers cater to a mass market and are often called traditional product retailers.

Convenience Stores

These are relatively small stores, located near residential areas. They are open for long hours, seven days a week and offer a limited line of convenience products like eggs, bread, milk, etc. The store size ranges from 3,000 to 8,000 sq.ft. and they are targeted at customers who want to make their purchases quickly. Though convenience stores per se, do not exist in India, the retail stores, which have started coming up at petrol pumps in major Indian cities, like the HP Speed Mart and In&Out, can be termed as convenience stores.

Supermarkets

These are large, low cost, low margin, high volume, self-service operations, designed to meet the needs for food, groceries & other non-food items. This format was at the forefront of the grocery revolution, and today, controls more than 30 per cent of the grocery market in many countries. Internationally, the size of these stores varies from 8,000 to 20,000 sq.ft. ASDA, Safeway, Kroger and Tesco are some of the large international players. Some retailers follow the concept of Every Day Low Pricing (EDLP). Under this, the prices charged by the retailers are lower than those charged by other grocery retailers in the area.

While there is no standardization on the parameters of what makes a supermarket in India, it is one of the fastest growing segments. Many traditional retailers are refurbishing their stores and christening themselves as supermarkets. However, some of the well-established ones are Nilgiri's, Footworld, Subhiksha and Vitan.

Hypermarkets

These are huge retail stores occupying an area which ranges anywhere between 80,000 to 2,20,000 sq.ft. They offer both food and non food items like clothes, jewellery, hardware, sport equipment, cycles, motor accessories, books, CDs, DVDs, videos, TVs, electrical equipment and computers, and combine the supermarket, discount & warehouse retailing principles.

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The hypermarket concept was pioneered by Carrefour in France. A distinguishing feature of hypermarkets is their large size. The cheapest prices will normally be found in these stores. Across the world, hypermarkets are usually part of a retail park with other shops, cafeterias and restaurants. They almost always have their own petrol station on the site. Other facilities on the site include banks with cash machines, photo processing shops and pharmacies. Internationally, hypermarkets are located at the outskirts of major towns and cities.

Speciality Stores

These are characterized by a narrow product line, with a deep assortments in that product line. Speciality stores usually concentrate on apparel, jewellery, fabrics, sporting goods, furniture, etc. They have a very clearly defined target market and their success lies in serving their needs. Personal attention, store ambience and customer service are of prime importance to these retailers.

Internationally, most speciality retailers operate in an area that is under 8,000 sq.ft. Examples of international retail chains, which are speciality retailers, include The Gap, Ikea, High & Mighty, Big & Tall, etc. In India speciality stores in one of the fastest emerging formats. Examples of speciality stores in India include retail chains like Proline fitness station, Gautier furniture, etc.

A new type of a speciality retailer has emerged in the West – this is the **category killer.** A category killer is a speciality retailer, which offers a very large selection in the chosen product category, and economical prices. Category killers are successful because they focus on only one category. They stock deep (e.g. Toys R Us has 10,000 toy items in a store, as compared to 3,000 in a department store), they buy and sell cheap and finally, they dominate the category. Toys R Us is a good example of an international category killer. Nallis's in Chennai can be termed as a category killer in sarees, as also the Chandana Bros chain in Andhra Pradesh and Toys Kemp in Bangalore. Mumbai has one such category killer – The Loft, a 15,000 sq.ft. store catering to footwear alone.

Department Stores

Department stores as a retail format, originated in the mid-nineteenth century. This forma of retailing is popular in many parts of the world. In broad terms, a department store is a large-scale retail outlet, often multi-leveled, whose merchandise offer spans a number of different product categories. The merchandise of various

departments is displayed separately in the store. Apparel and furnishing are two of he most common product categories in most department stores. Some of the well-known international players in this format are Marks & Spencer, Sears, J.C. Penny, Harrods, Selfridges, etc.

While department stores have been around in India for a long time, this format of retailing has seen a fair amount of action over the past few years. The size of an average Indian department store varies from 20,000 to 40,000 sq.ft. and stocks anywhere between 50,000 to 1,00,000 SKUs. Some of the national players are Shopper's Stop, Globus, Westside and Lifestyle, while others like Akbarally's, The Bombay Store, Benzer in Mumbai, Ebony in Delhi and Chermas and Meena Bazaar in Hyderabad, are the important local players.

Off Price Retailers

Here, the merchandise is sold at less than the retail prices. Off-price retailers buy manufacturers, seconds, overruns and / or off seasons, a deep discount. The merchandise may be in odd sizes, unpopular colours or with minor defects. Off price retail stores may be manufacturer owned or may be owned by a speciality or departmental store. These outlets are usually seen by the parent company as a means of increasing the business. Factory outlets, if owned by the manufacturer, may stock only the company's merchandise. Examples include the Pantaloon factory outlets, the Levi's factory outlets, etc. On the other hand, off price retailers owned by a speciality or departmental store, may sell merchandise from the parent company as well as merchandise acquired from other retailers. This forma largely depends on the volume of sales to make money.

Catalogue Showrooms

Catalogue retailers usually specialize in hard goods, such as house ware, jewellery, consumer electronics. A customer walks into this retail showroom and goes through the catalogue of he products that he would like to purchase. Some stores require the customer to write out he product code number and hand I over to the clerk, who then arranges for the product to be brought out from the warehouse for inspection and purchase. Some of the popular catalogue showroom retailers in the world include Argos, Service Merchandise and Best Products.

3. Non-Store Retailing

The ultimate form of retailing directly to the consumer is the non-store retailing. A direct relationship with the consumer is the basis of any kind of a non-store retail venture. It may be broadly classified into direct selling and direct response marketing. While direct selling involves a direct, personal contact, in direct response marketing, the customer becomes aware of the products / services offered through a non personal medium like mail, catalogues, phone, television or the internet.

Direct Selling

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Direct selling involves the making of a personal contact with the end consumer at his home or at his place of work. Cosmetics, jewellery, food and nutritional products, home appliances and educational materials are some of the products sold in this manner.

The direct selling industry, which started out in India in the mid-1990s, went through a bad phase before attaining a significant worth of Rs 1,500 crore today, and it continues to record a 25-30 per cent growth.

The Indian Direct Sellers Association (IDSA) has compiled a comprehensive report on domestic and international patterns followed by the direct selling industry. According to the survey, the global turnover of he direct selling industry has more than doubled over the last 10 years, from US $33.32 millions in 1988 to US $81.87 millions in 1998. According to the same survey, the direct selling industry in India, has been witnessing a 60-65 per cent growth in the sales turnover over the past few years. The total sales have grown from Rs 588 crore in 1998 – 99, to Rs 714 crore in 1999-2000.

As far as the profile of the products purchased from direct selling companies is concerned, 68.9 per cent are household goods, while 12.4 per cent are personal care products. Family products (including educational material, leisure products) account for 14.4 per cent, business aids and others (mainly promotional material) account for 3.59 per cent, and food products (like dietary supplements) account for 0.71 per cent of all the products purchased. In world markets, house holds goods account for 39.5 per cent of all products purchased, while personal care products account for 30.4 per cent.

An interesting aspect of direct selling in India is that women comprise up to 70 per cent of all sales people in India, couples account for 20 per cent and males account for 10 per cent. The number of men is expected to go up because companies like Modicare, Amway and Herbal life have been encouraging men to join their sales force. Direct selling may follow the party plan or the multi level network. In a party plan, the host invites friends and neighbours for a party. The merchandise is displayed and demonstrated in a party like atmosphere and buying and selling takes place.

In a multi level network, customers act as master distributors. They appoint other people to work with them as distributors. The master distributor earns a commission on the basis of the products sold and distributed by the distributors.

Direct Response Marketing

Direct response marketing involves various non-personal methods of communication with the consumer and these include:

- Catalogue retailing or Mail Order
- Television retailing

- E-retailing
- **Mail Order Retailing / Catalogue Retailing**

This form of retailing eliminates personal selling and store operations. Appropriate for speciality products, the key is using customer databases to develop targeted catalogues that appeal to narrow target markets. The basic characteristic of this form of retailing is convenience.

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- **Television shopping**

Asian Sky Shop was among the first retailers who introduced television shopping in India. In this form of retailing, the product is advertised on television, details about the product features, price and other things like guarantee / warranty are explained. Phone numbers are provided for each city, where the buyer can call in and place the order for the product. The products are then home delivered.

- **Electronic Shopping**

This format allows the customer to evaluate and purchase products from the comfort of their homes. The success of this form of retailing largely depends on the products that are offered and the ability of the retail organization to deliver the product on time to the customer. Strong supply chains and delivery mechanisms need to be in place for it to be a success. Many retailers are opting for click and mortar, where, while having a brick and mortar retail store, they also sell some of their products or ranges on the Internet. Though most of the large retail organizations in the world have already adopted this model, it is yet to catch on in India.

Interactive Kiosk

Information kiosks have emerged in the western markets as a new type of electronic retailing. These kiosks, comprising of computer terminals housed inside and a touch screen on the outside, provide customers with product and company information and may actually aid the customer in making a purchase. A large number of international cosmetic companies have used this technology to their advantage. The terminals also serve as a market research tool for the retailers. A large amount of information about the people who have interacted with the system can be collected and programs and products developed accordingly.

Automated Vending

This is another impersonal form of retailing. However, it provides convenience to the customers, as they have access to the products round the clock. It is a popular form of retailing abroad and is used to sell routinely purchased items like soft drinks, candy, cigarettes and newspapers. While tea and coffee vending machines are a popular sight at the airports in India, the Automated Teller Machines operated by banks are perhaps the most successful examples of automated vending in India. The tea and coffee machines are rarely completely automated and unattended as in India, the cost of labour is still cheap.

Airport Retailing

Retail is becoming increasingly important for airport operators. It is time to redefine airports. Gone is the age where airports were passenger processors, the time when traveling was just a hassle, with passengers moaning and complaining about long waits and dull surroundings. We are now in an era where airports are focusing on retail and food and beverage strategies upfront, so as to reshape airports into exciting, energized business and retail / entertainment centres – as well as transportation hubs.

Airports in many cities of the western world, the Far East and Middle East serve as mini shopping plazas for the traveler. In India, this trend is yet to catch on. Only one retail organisation has actually ventured into opening a retail store at an airport in India. Retail Snapshot 2.5 highlights this development in Indian retail.

The "Cash & Carry" Outlets

The term – Cash & Carry means that customers do their own order picking, pay in cash and carry the merchandise away. Cash and carry is a wholesale format that aids small retailers and businessman. The advantages that this format has over the traditional wholesale operations are: 1) It offers a wide assortment of goods, food and non-food items, thus providing for one stop shopping and allowing the customers to save time. 2) Given the permanent availability of goods in the store, the customer can always purchase the goods he needs and is able to store and finance them in the short term. Thus, despite the principle of cash payment, cash and carry largely takes over the function of financing and stock holding on behalf of is customers. 3) Longer business hours per week enable the customer to do his shopping at a convenient time, seven days a week.

This format has been featured in this section as two of the largest groups, which operate under the cash and carry format, viz., Metro AG, Germany and Shoprite of South Africa, have recently started their operations in India.

Franchising

The modern era of franchising began in the 1950s when Ray Kroc, a salesman, first discovered a San Bernadino, California, drive-in restaurant operated by the McDonald brothers. Impressed by the crowded parking lot and the tasty french fries, Kroc bought the rights to franchise the business, and went on to build one of the most successful companies in the history of American business – McDonald's! And he did it through franchising!

The success stories are endless. McDonald's, Burger King, HFS< Midas, Culligan, Century 21, Singer Sewing Machine, Kentucky Fried Chicken, Subway, and Coco-Cola are only a few of the most visible international examples of franchising success. Today, doctors, dentists, opticians, attorneys, accountants, salespeople, and most other types of operations are profiting from expansion via the franchise method.

Types of Franchising

There are basically two types of franchises:

(1) Product and Trade Name Franchise

In this type of arrangement, the distribution of a product is done through dealers. Common examples are auto dealerships that sell products manufactured by the franchiser or the auto manufacturers.

(2) Business Format Franchise

Business format franchise is the most common type of franchising today. In this type of franchising, the franchiser provides the product, the trade names, the operating procedures, and the training required for running the franchise. The franchisee, on the other hand, incurs the expenditure for the premises and its interior decoration and the staff. He also manages the day-to-day business. Many familiar fast food outlets and training institutes fall into this category. Franchising as a format of retail expansion is not new to India. It is estimated that there are over 1,000 national and regional franchisers spread across sectors like education, retail, professional services and healthcare, among others. The number of franchisees is approximately 40,000, with their combined annual turnover ranging between Rs.8,000 to Rs. 10,000 crores[8]. Investments are believed to be at Rs 5,000 crore and over 3,00,000 people are employed in this business.

The franchise showrooms of various readymade garment manufacturers like Arvind, Madura Garments, Color Plus, etc. and Titan are perhaps the most visible successes of franchising in India. The next wave belonged to the computer education and training centers, fuelled by the IT boom. Successful examples include Aptech and NIIT. One of the pioneers in this field in the area of beauty and personal care products, has been Shahnaz Hussain. Today, the chain of Shahnaz Hussain parlours has more than 400 clinics in India and abroad. Some of the new sectors in which the emergence of franchising has been witnessed are illustrated in Table 2.2 below.

With retail formats evolving rapidly, retailers need to stick to what they know best, adapt to the changes in the environment, in the competition and in the consumer's needs. While predicting the future is not possible, retailers need to anticipate the trends, and adapt their strategies accordingly. While change will present new opportunities, it will be the ability to adapt to this change, which will determine survival.

ROLE OF RETAILING IN INDUSTRY

Food retailers

There are a large variety of retailers operating in the food-retailing sector. This is not surprising considering the enormous size of the market for food. However,

traditional types of retailers, who operate small single outlet businesses mainly using family labour, dominate this sector. In comparison, supermarkets account for a minuscule proportion of food sales. This includes low operating costs and overheads, low margins, proximity to customers, long opening hours, and additional services to customers (such as home delivery). Nevertheless, supermarket sales expanded at a much higher rate than other retailers. This is because greater numbers of higher income Indians prefer to shop at supermarkets because of convenience, higher standards of hygiene and the attractive ambience.

Health and beauty products retailers

With growth in earnings, Indians have been spending more on health and beauty products. As in the case of other retailing sectors, small single-outlet retailers also dominate sales of health and beauty products. However, in recent years, a couple of retail chains specializing in health and beauty products have sprung up. At present, they account for only a tiny share of sales of these products. However, as Indians spend more on such products in future, their business will undoubtedly expand substantially. There is also scope for entry of more such chains.

Clothing and footwear retailers

Numerous clothing and footwear shops are to be found in Indian cities and towns, especially in shopping centres and markets. These are a mix of traditional and modern stores. Traditional outlets are small and cramped with little emphasis on alluring displays. They basically, stock a limited range of cheap and popular items. In contrast, modern clothing and footwear stores are spacious with sample products attractively displayed in windows. Just as in the case of food retailing, there are also a huge number of retailers selling clothing and footwear in makeshift stalls or on footpaths. Because of their rock-bottorn prices, which are much lower than prices of branded products, they attract a large number of customers.

Home furniture and household goods retailers

Small retailers dominate the home furniture and household goods retailing sector in India. Despite the large size of this market, very few modern and large retailers have established specialized stores for these products. However, there is considerable potential for the entry or expansion of specialized retail chains and it is likely that this will happen during the next few years.

Durable goods retailers

The entry of a large number of foreign consumer durable companies into the Indian market during the 1990s after the government liberalized its foreign investment and import policies transformed this sector dramatically. A much larger variety of consumer electronic items and household appliances became available to the Indian customer. Competition among companies to sell their brands provided a strong impetus to the growth for retailers operating in this sector.

Leisure and personal goods retailers

Rising household incomes due to economic growth spurred consumer expenditure on leisure and personal goods in India. There are specialized retailers for each category of products in this sector. A few retail chains also emerged particularly in the retailing of books and music products. Another key feature of this sector is the popularity of franchising arrangements between established manufacturers and retailers.

Footnotes

1. Towards Net Profits , Businessworld, March 24, 2003.
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